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The public's stake in the railroads

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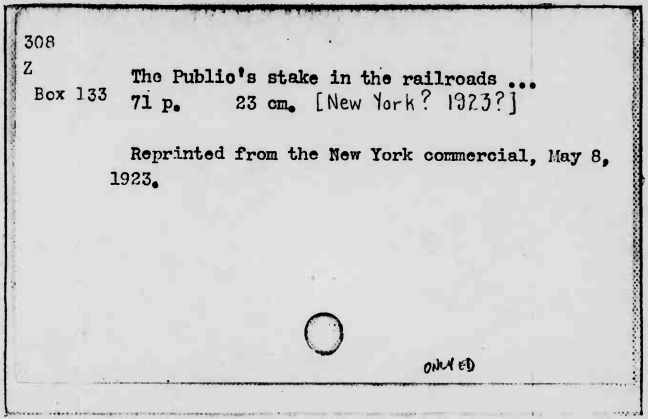
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The Public's Stake in the Railroads

"All the public needs for correct judgment of railroad problems is a correct understanding of them."

"The solution of the railroad problem is simple—it is for the public to work with the railroads instead of against them."

PRICE TWENTY-FIVE CENTS

Reprinted from the
NEW YORK COMMERCIAL
May 8, 1923

Erie Railroad Company
7-10-23

Public Now Sees Need of Private Initiative for Roads

By JULIUS H. BARNES

President Chamber of Commerce of the United States.

There is evidence of a complete change of front in the public attitude toward our transportation facilities. The cumulative evidence, day by day, of relative failure of state-owned and state-operated railways in Europe has crystallized American conviction into a faith in Regulation as the proper protection of the national interest, rather than Government Ownership or Operation. The demonstration that, in the recent past, Regulation, otherwise proper, has been over-rigid and unwise, destroying the proper opportunity on which alone earnings and credit for expansion can be secured, has crystallized a conviction that intelligent Regulation can be constructive, and in a determination to secure that kind of Regulation. This fairer attitude of public opinion has been aided by the receptive attitude developed by railway executives.

We need a program of transportation which will care for the inevitable expansion of these coming years. We need a proper relation of waterways and motor transport to our older railways. We need a determination of the fair relation of rates on various commodities transported. We need a sober study of the economies and advantages of consolidation into larger units. The Chamber of Commerce of the United States is carrying on a study of all these phases, by men equipped by experience and ability and devotion to the national interest. We hope in the next few months to have a program that will carry conviction, and a program which will recognize the need of private initiative and of outstanding individual ability attracted to this field of transportation. The American people will be fair and wise and generous in their treatment of transportation through the agencies of Government when they have accurate information and a convincing program.

N.Y.C. aug. 13, '23

INTRODUCTION

Never before has a subject of such vital importance as transportation had such expert analysis as is here given by the best minds of the country in articles especially written for the New York Commercial. The subject is treated not from a technical standpoint but in an endeavor to inform the average citizen where his interests lie.

It is the business of the country to take care of its transportation system and to bring it up to a standard of greatness that will parallel the greatness of the country itself. It is a mistake to regard the railroads as something apart from our community interest. As is shown elsewhere in this booklet their actual ownership is widely distributed and is not in the hands of a few so-called "Wall Street millionaires" as the demagogues would have us believe. For the most part, the real owners are persons of moderate means, while those who furnish the capital by taking the bonds are even more widely distributed and through the financial institutions touch practically all of us. Every man, woman and child is interested in the welfare of the railroads. They may not realize it, but it is so. From the nature of things their control must lie within the hands of a few who are specially equipped for that service, just as the Government itself, although it is a government of the people, finally comes down to a comparatively small number.

The necessity for this intimate study of railroad affairs by the people at large is shown by the fact that the radical members of Congress are even now outlining their plan of attack on the railroads at next winter's session of Congress. Just what is it this group proposes to accomplish? Is theirs to be a constructive program or is it to be an obstructive one, or, more properly speaking, a destructive one?

But giving them credit for good intentions, how is their program likely to affect the public? They propose to force a reduction in the valuation of the roads, presumably with the idea of obtaining lower freight rates. Let us assume that they are successful, so that billions of dollars will have to be written off the books of the companies. Upon whom will the loss of this shrinkage fall? Not upon a few millionaires, but upon the almost two million bondholders and stockholders, and through them, upon the savings banks, the insurance companies, the trust funds, and eventually upon the employes.

Yet even that would not be the worst, because the greatest blow of all would be the killing of railroad credit. It would be the end of railroad growth and expansion. It would rob the steel companies of their greatest customer. It would stagnate the tremendous manufacturing interests constantly employed in supplying railroad needs. It would cause an industrial depression, the like of which we have not experienced in a generation. It would be a fearful price to pay for lower rates, presumably in the interest of the farmers, who in turn would have less to ship because of the reduced purchasing power of the country, while their

own purchasing power was correspondingly reduced. It would mean the bankruptcy of railroads, of industrial concerns, of financial institutions, wiping out of trust funds of widows and orphans, or, in a word, general disaster.

But mere reduction in freight rates is not what these radicals are aiming at. They are trying to force government ownership—a failure wherever it has been tried. In Italy they are trying to crawl out from under it, and we have got to face the question as to whether this most enlightened country in the world, as we love to believe it, must go through the harrowing experience of finding out for itself the lesson that other countries can teach it.

In 1896 the country was almost swept off its feet by the free silver heresy, and it took a campaign of education such as was never before undertaken to convince the country that disaster was threatening. We are face to face with a similar situation in regard to our railroads, and the time to begin that campaign of education is now, so that when Congress assembles in December, public opinion, the strongest weapon we have, will have been crystallized on the side of sanity and conservatism.

Closer Understanding of Railroad Problems Needed

By C. H. MARKHAM
President, Illinois Central System.

Our country has suffered greatly in the last several years from the effects of the failure of the public to permit the railroads to earn a reasonable return upon the capital invested in them. This has grown out of a public demand unsympathetic to the needs of the railroads and to the welfare of the country.

We have only recently been passing through a serious transportation shortage, caused largely by restricted railway earnings over a long period of years. The losses incident to the recent transportation shortage have been staggering. Perhaps this is the most notable example of the disastrous effect of an unsound, unsympathetic railway policy, but the effects of other unconstructive policies have varied only in degree. For example, railway taxes have doubled in seven years, trebled in twelve years. All this has rebounded upon the public, for the public pays the transportation bill; the railroads are only the agents of the public in the transaction of providing a service at an annual cost of upward of $5,000,000,000.

Past Mistakes Light Way

What has already taken place with regard to the railway situation cannot be avoided now. We must let it pass; but we should, I believe, give our very earnest consideration to whether this is to be our national railway policy in the future. If we point to the mistakes of the past in dealings with the railway situation (and they have been costly mistakes), it is only for the purpose of lighting our path by the lamp of our experiences. We shall be most unwise if we continue to grope in darkness when we have the light of our experiences to go by.

The need for a closer, more sympathetic understanding and appreciation of railway problems is a matter which concerns the public most vitally. The apathy exhibited by a good many persons who should be thoroughly alive to the railway situation indicates that they regard the welfare of the railroads as a matter which concerns only those engaged in the railroad business. That would be true if the welfare of all other industries were not dependent upon the welfare of the railroads, but as a matter of fact the welfare of the railroads does affect most seriously the welfare of every other branch of our commercial life. Let me illustrate:

It must be apparent to every thinking person that the amount of business of all kinds that can be carried on in this country can be no greater than the amount of transportation service that can be furnished by our railroads. Anything, therefore, which affects the railroads, either favorably or adversely, affects every other line of business activity in the same way. The railroads alone represent an investment of around 20 billion dollars. That investment is worth protecting; our country would suffer immeasurably if it alone were to be wiped out. However, destruction of the railroads would not stop there; it would carry with it the destruction of a vast industry engaged in agricultural production, which represents an investment of about 78 billion dollars; it would mean the destruction of the manufacturing industry, with an investment of around 45 billion dollars; it would jeopardize the payment of wages to the Nation's wage earners, whose annual earnings exceed 40 billion dollars, or the equivalent to a 5 per cent return upon an investment of more than 800 billion dollars. No line of business, no branch of our life, would escape the dire effects of such a catastrophe as destruction of our railroads would be.

Faith In American Public

I do not believe that our railroads are going to be destroyed: my faith in the common sense of the American public is too deep to let me think that. However, I believe we should face the issue squarely. There is an agitation now going on for the enactment of federal legislation that would seriously impair the railroads, if not actually destroy them. We must decide whether we are going to protect, not alone our investment in the railroads, but our investment in civilization. Everything that has been won for us by two centuries of frugality and genius and labor upon the North American continent is at stake in the solution of the railway problem. Railway men would be derelict to their solemn duty should they neglect to do their utmost in educating the public to the need for constructive treatment of the railroads; but the duty is not theirs alone—the situation needs many friends of the railroads who will stand shoulder to shoulder with the representatives of the railroads in demanding that the public, through its legislative and regulatory

agencies, gives the railroads the square deal.

The railroads must have friends—many staunch friends. That they do not have more friends, some will say, is because some railway men in the past have betrayed the trust of public friendship. Even should we grant that, the problem is still ours to solve. The railroads have repented, in the sackcloth and ashes of humiliation under unconstructive regulation. Let us frankly admit the error on both sides of the public-railway partnership and forget it in a new realization of the duties and obligations of that partnership.

The path we should travel in dealing with the railway situation is plainly marked for us by the Transportation Act of 1920. The framers of this important and highly constructive piece of legislation have carefully sought to avoid the mistakes of the past by providing that railway regulation must be cognizant of the need of the country for adequate transportation at all times. We will make no mstake to follow the act. The danger lies in abandoning the act to follow the path which political reformers are trying to lay out for us. I earnestly advise against doing that.

I also desire to speak a word in behalf of the sincere effort that has been made by the present Interstate Commerce Commission to give to the Transportation Act a broad, constructive interpretation that will inure to the benefit of the country. We should support the Commission in its efforts.

The Message of a Pioneer

By WALLACE T. HUGHES

General Attorney Rock Island Lines, Chicago

I am the Rock Island Railroad.

On this, my 70th birthday, I salute you, my friends and neighbors!

Three score and ten years, in human terms, are a span of life; therefore, you think me old.

But I expect to be here a thousand years, performing my day's work faithfully and diligently and striving to win the praise of those who are to come after you.

In my 70 years I have seen prairies become fertile farms, hamlets grow to great cities, log houses make place for mansions.

I have seen the blacksmith shop expand to the giant foundry, mines bring forth treasure immeasurable; stagnant lands I have seen changed into teeming settlements, as Nature, under the touch of man, yielded up its wealth.

I have witnessed the Miracle of progress!

And I take comfort that I have played my part in this mighty epic of the West.

Who can say that part has been small?

What avails the crop in the field if it have not my labor to bear it to the world?

For 70 years I have been carrying your wheat and corn, your fruit and cattle, to market, bringing food to the city and fortune to the farm.

I have brought you coal to warm you and to yield its power for your industries.

I have borne your plows, your typewriters, your mousetraps, your cotton to all corners of the earth.

I have brought you clothes and houses and automobiles; silks from the Orient, gems from the South Seas, ores from Alaska.

Millions and millions have I served and helped. To many I have given prosperity; for those who failed I did my best.

I have taken your sons and daughters to college and brought them back to you.

I have carried you to woods and mountains, where you laughed and played.

I have sped the sorrowing to the bedside of the dying.

I have joined lover and sweetheart and sent many a bride and bridegroom gaily on life's journey.

Thus in the lives of my neighbors have I been a messenger of good will, of mercy and of happiness.

Some of you think me a monster of stone and steel.

These are but my bones and sinews.

I am 50,000 human hearts!

There's a heart in cab and caboose, at ticket window and in the Manager's office.

They are just like your own, with the same hopes, ambitions and feelings.

They give me life.

I look fondly upon the multitude of homes where these hearts dwell—homes which are maintained because I am here to offer livelihood to those who help me do my work for you.

I, the Rock Island Railroad, am 70 years old today and, my friends and neighbors, I salute you!

May we be friends and neighbors, you and I, for years to come; and, in the ages after that, may the privilege be mine of serving your children and your children's children and of bringing to them in my trains great golden cargoes of prosperity and happiness!

U. S. Railways Made Possible Greatest of Civilizations

By JULIUS KRUTTSCHNITT

Chairman Southern Pacific Co.

From the viewpoint sometimes taken of the railway situation it has often seemed to me that there is in many quarters a misconception of the vital importance of adequate and efficient transportation to the country's welfare and of the close relationship that exists between a sound condition of the railway industry and our general prosperity.

The United States is primarily a country depending upon transportation. Its population of 110,000,000 occupies a territory between seven and eight times as great as the smaller population of France and Germany, yet prompt and reasonably cheap transportation is available over vast distances, so that the products of one section may be marketed throughout the country, including rail transportation often for a distance of 3,000 miles or more.

The United States, with 6 per cent of the world's population, possesses nearly 40 per cent of the world's railways, which are capitalized for only one-half or one-fourth as much per mile as those of the principal countries of Europe, charge the public rates only half as much per mile of movement as the European rates, and perform twice the public service per dollar of capital invested. The 2,000,000 persons employed in rail transportation vastly exceed the number employees of any other industry, and, with their families and dependents, together with those holding railway securities either directly or indirectly through savings banks, insurance, etc., comprise a very large part of our local population.

The growth of the United States has been unequalled amongst nations. By building into undeveloped territory in advance of population, by improvements of roadbed and equipment, adoption of safety devices, inauguration of better service and more economical methods of operation, and by substantial additions to facilities as needed, the privately operated railways may, without boasting, claim to have done their share,—and more than their share—in meeting their obligations; indeed, the remarkable advancement shown by our country would not have been possible with stagnant or inefficient transportation.

As proof of this, witness the following statistics compiled for the census years 1920, 1910, 1900 and 1890:

	UNITED STATES			
	1920	1910	1905	1890
1. Population	105,710,620	91,972,266	75,994,575	62,947,714
2. Wealth (true value, real and personal property)	$290,000,000,000	$187,739,071,000	$88,517,307,000	$65,037,091,000
3. Wealth per capita.	2,689	*1,965	1,165	1,034
4. Bank clearings....	252,338,249,466	102,563,959,069	51,964,586,564	37,660,686,572
5. Value of farms and farm property..	77,924,100,338	40,991,449,090	20,439,901,164	16,082,267,689
6. Value products of manufactures ..	62,418,078,773	20,672,051,870	11,406,926,701	9,372,378,843
Railroads—				
7. Mileage of road operated	259,941	240,831	192,556	156,404
8. Mileage per thousand persons....	2.46	2.62	2.53	2.48
9. Money invested in railways	19,849,319,946	14,567,816,099	$10,263,313,400	$7,755,297,381
10. †Traffic units moved (ton miles plus 3 times pass. miles)	589,466,995,000	378,018,399,436	204,145,178,921	119,515,404,149
11. Traffic units per person	5,576	4,110	2,686	1,899
12. Traffic units per dollar invested..	29.70	25.97	19.89	15.41
13. Traffic units per mile of road....	2,267,695	1,569,642	1,060,186	764,145
14. Traffic units per train mile	488.93	309.38	230.21	165.82
15. Railway wages per employe	$1,620	$673	$567	...
16. ‡Ry. freight rev. per ton mile..	1.051	0.753	.729	0.941
17. ‡Wholesale prices of commodities..	243	99	80	82

Authorities: U. S. Statistical Abstract and reports of I. C. C.
*Year 1912.
†Company freight estimated for 1910, 1900 and 1890.
‡Prepared from index numbers, U. S. Bureau of Labor, 1913—equals 100.

The items on this statement tell a remarkable story of progress. Compared with a period thirty years earlier, the public in 1920 paid three times as high wholesale prices for commodities, but paid practically no more for transportation, despite the fact that the railroads themselves had to pay the higher commodity prices and also were required to pay three times as high wages. Their ability to do this rests principally upon the increased efficiency attained by private railway management, as exemplified by the fact that for each train moved one mile the railroads moved nearly three times as many traffic units. Likewise, twice as many traffic units were moved per dollar of investment.

Abundance of transportation and the greater use made of it by the people is shown by the tripling of traffic units per mile of road and by the number of traffic units moved per person, the latter being as follows:

1890	1,899
1900	2,686
1910	4,110
1920	5,576

It is true that since 1920 wholesale prices have fallen materially, particularly with respect to agricultural products, but there was also a reduction in rates in 1922, the comparison of prices and rates as of 1890 to Nov., 1922, being as follows:

	Per cent
Freight rates increased from 0.941 cents to 1.19 cents, or	19
Railway wages increased from $567 (1900) to $1643, or....	189
Index number of wholesale prices of commodities increased from 32 to 156, or..	90

Thus the present railway rates are not only not high, as is the impression of many, but are remarkably low as compared with prices generally, and the ability to operate the railways with the small increase in rates above noted, whilst paying nearly triple the wages, which comprise two-thirds of the total operating expenses, which double prices of materials, is a remarkable tribute to private railway management and has resulted in saving enormous sums for the American people. Had no changes been made in railway practices, obviously it would have been necessary to raise railway rates to meet the rise in wages and commodities, and the saving to the public through holding down rates by advancement and progress in the science of railroading is measured in billions of dollars annually.

Efficiency of the Railroads

Charges are made from time to time that private railway management is not obtaining the efficiency it should in conducting the railroads, statements being put forth that large sums would be saved through the institution of impracticable and unsound policies, an estimate made recently by an association of impracticable and unsound policies, an estimate made recently by an association of security owners and also made many years ago by an advocate of rate reductions before the Interstate Commerce Commission being an annual sum averaging $1,000,000 a day.

This sum, while large, is a mere bagatelle compared with what the railways have been able to accomplish through the economics they have practiced. For example: The lifting of the traffic units per train mile from 165.32 in 1890 to 488.93 in 1920 has been responsible for saving the movement of 2,349,235 train miles in the year 1920, the value of which, computed at the average cost per train mile of that year, amounted to $6,742,304,000, or $18,200,000 for each day of the year. Truly, these statistics show how the railroads have carried on.

U. S. Has Cheapest Rail Transportation

The people of the United States, as well as the owners of the railways, have reason to be proud of their railway system and of the results obtained. No other country in the world in proportion to population has such abundant or cheap rail transportation as the United States. The railways have certainly met their obligations in the past quite as well as could have been expected despite repressive legislation and a rate of return on their investment most discouraging to the owners of the property desirous of improving their plant to secure its utmost efficiency and to provide facilities to meet any demands.

According to statistics of the Interstate Commerce Commission covering a period of 32 years, from 1891 to 1922, the only year in which the ratio of operating income to investment in railways exceeded 6 per cent was the war year of 1916. In 21 out of the 32 years the ratio of return was below 5 per cent, a rate entirely too low to secure improvements which often must be financed at a higher rate of interest, to say nothing of many desirable improvements, such as elimination of grade crossings, construction of larger and finer passenger stations, etc., which in themselves bring no direct return to offset the cost of money borrowed.

Yet during this 32-year period the investment was increased from 8 billion dollars to over 20 billions, or 2½ times. The fact that there was a car shortage in 1922 is apt to blot from memory that there was a large car surplus in 1921, and that during the 15 years ending in 1922 only 1916-1917, 1920 and 1922 were car shortage years, while in 11 of the 15 years the railroads had provided more cars than needed for their traffic, resulting in a surplus.

The Interstate Commerce Commission recently published a diagram showing the trend of railway traffic from 1890 to 1921 estimating future growth to 1930. In this chart the commission

regarded as exceptional the traffic of the war period commencing in 1916 and continuing until 1921. The equipment provided by the railways has been considerably in excess of that required to move normal business as estimated by the commission, with the single exception of 1922, when the carriers' ability to function was seriously curtailed by the shopmen's strike, preventing the restoration to service of the accumulation of bad order cars resulting from Federal control, and by the effect on traffic of the coal strike.

1902 the Interstae Commerce Commission, for the first time, recorded the aggregate tonnage-carrying capacity of freight cars, the total then being 43,-391,000. In 1915 the railways had increased the aggregate car capacity to 92,946,000, or 114 per cent. Meanwhile the volume of freight traffic had increased only 76 per cent, hence before the war the railroads had been adding to their car facilities more generously than the gain in traffic justified, therefore, they were able to move without substantial additions to equipment, but aided, of curse, by greater intensive use, a war business nearly 50 per cent greater than the normal traffic previously handled. We doubt whether any other industry in the country can point to such a record.

Substantial Additions to Plant

No freight cars were ordered by the United States Railroad Administration in 1919 or 1920 and the roads had no money or credit to obtain the normal supply of equipment in 1921. In 1922, however, there was a market revival in railway development and with improved prospects and credit, although net earnings were still low, the railways have made very substantial additions to their plant. The equipment orders for 1922 exceeded those of any year since 1912 as to freight cars of any years since 1916 as to pasenger equipment, and of any year since 1918 as to locomotives. These orders were placed despite the disturbed conditions incident to the strike of that year, and regardless of these conditions the roads in the year just passed moved more loaded cars, excluding coal, than in any year in their history. They have likewise moved in the year 1923 to date 20 per cent more loaded cars than moved in the same period of 1922 or 1921.

The railways have anticipated the large traffic prospects for 1923 by continuing to place orders for equipment, the Southern Pacific Lines, for example, having ordered, or will receive this year, equipment for companies in which they are interested that will cost about $50,000,000. The carriers have succeeded in reducing the percentage of bad order cars from 15.3 per 100 cars owned in July, 1922, when the shopmen's strike began, to 9.2 per 100, Feb. 1, 1923, this reduction being 40 per cent. Car loading has been showing an improvement, being 28.2 tons in November, 1922 (last record available), compared with 27.2 tons in same month of previous year, an increase of 4 per cent. The train load is getting better, being 719 tons in November, 1922, as against 633 in same month of 1921, an increase of 12 per cent. The miles run per car per day was 27.1 in November, 1922, compared with 24.0 in the same month of previous year. an increase of 13 per cent.

Big Additions for 1923

An analysis made by the Railway Age in its annual number for 1923 indicated that the railways proposed substantial additions to their facilities in all directions in 1923, it being estimated that the total capital expenditures for the year will amount to $700,000,000, or the highest of any year in the past ten, with the exception of one.

These statistics are quoted to show that the carriers are fully alive to the situation and are doing everything possible to provide transportation facilities that will enable them to conduct satisfactorily and promptly the transportation needs of the country despite the handicap of insufficient returns and the shadow of anti-railroad legislation advocated by those who think that the welfare of the transportation industry is secondary to that of other great industries of the United tates, failing to realize that without a transportation system on a sound financial basis the people will have inadequate transportation, car shortage, inefficient, and possibly unsafe railways, and that the country's wellbeing is bound up closely with that of the carriers. In 1917, just prior to Government control, the roads successfully moved a gain in traffic nearly 50 per cent greater than two years before and secured a satisfactory net return, although freight revenue averaged only 7¼ mills per ton mile. Federal control changed all this and with freight revenue averaging 12½ mills in the latter half of 1920, or 70 per cent greater, the higher wages and operating costs had consumed all the revenue and there was no net remaining.

High Praise for Transportation Act

Congress passed the Transportation Act of 1920, the greatest constructive railroad legislation ever enacted, which, if allowed to function as intended would afford a basis for a complete, effective, solvent and adequate railway system. Yet with the fall in business in 1921 the return on investment in railways was only 3 per cent, or half that promised under the Transportation Act, and in 1922, with greater traffic but with substantial reduction in rates in the last half of the year, the roads earned about 4 per cent on their investment, or still only two-thirds of the amount Congress considered right when passing the Transportation Act, and also two-thirds of the annual rental

which the Government considered it fair to pay the roads for their use during the period of Federal operation.

Since the end of Federal control much has been accomplished toward normal conditions. In 1917 the railway operating expenses were $2,829,000,000; in 1920, following Government control, they rose to $5,828,000,000; in 1922 they had been reduced by private management to $4,455,000,000, but they cannot be brought back to the 1917 condition as long as the railway wages are 60 per cent higher than in 1917, as they now are. In 1917 the operating ratio was 70.48 per cent; in 1920 it was 94.32 per cent; in 1922 it had been reduced to 79.32 per cent.

Review of 1922 Operations

In reviewing the operation of the railroads in 1922 it is stated by the authority of the Interstate Commerce Commission, in a report dated February 23, 1923:

1. That the railway operating income realized by the railroads in 1921 was due to "a drastic cut in expenses," continued in 1922.

2. That, in view of the fact that the fixed charges of these roads, including interest, rents, and similar deductions, are around 669 millions of dollars, "it will be seen that, regardless of any disputes about valuations, the roads did not earn enough in 1922, even if account be taken of the non-operating income which, before Federal control, averaged about 200 million dollars for the class I operating steam roads."

3. That a return of 5¾ per cent on a tentatively assumed valuation of 19.4 billions for the mileage used by Class I roads would be 1,116 millions of dollars annually, while the net railway operating income for 1922 was 777 millions of dollars.

4. That, "from the standpoint of the public, which is interested in the adequacy of the service, and in the fairness of the charges, two facts stand out prominently; one, an enormous traffic has recently been handled in spite of the strike handicaps; two, the average revenue per ton-mile is pretty well in line with the general leve lof wholesale prices and there is no reason to believe that the general level of rates is retarding the business revival."

Question of Railroad Rates Analyzed by Howard Elliott

By HOWARD ELLIOTT

Chairman, Northern Pacific Railway

IN THE discussion about the railroads and the rates charged by them, there is danger that the public may be confused and its judgment distorted. There is a tendency to believe that the rates of the railroads are a primary and potential cause of success or failure in industry and agriculture, and that by reducing rates, adverse economic conditions, errors in judgment and failures in management on the farm, in the factory and the mine could be corrected and avoided.

Rates are important, but their effect upon the success of any business enterprise has been magnified and there is danger that the theory of reducing rates in an effort to improve business and agricultural conditions will do more harm in other directions than the possible good to be obtained by such reductions.

The Cases of Two Great Merchants

E. C. Simmons made St. Louis the greatest hardware market and Marshall Field made Chicago the greatest dry goods market in the West. They sold their respective goods all over the United States although St. Louis had much better rates than Chicago in some directions and Chicago had better rates than St. Louis in other directions. Brains, management, "push," and resourcefulness had much more to do with the success of these two great enterprises than the freight rates. If Marshall Field had begun in St. Louis and E. C. Simmons had begun in Chicago, each would have succeeded in his respective line in just the same way as he did regardless of rates. Other illustrations could be given where efficient management, brains and energy brought success, and where the freight rate was of secondary consideration.

Service and adequate supply of a good quality of transportation at remunerative rates, even if higher than pre-war rates, are more important to business and agriculture than starvation rates with poor service and insufficient transportation.

A Railroad Rate Explained

What is a railroad rate? There is nothing mysterious about it any more than there is about the rate for a room in a hotel or the price of a ticket to the movies. A rate is the price charged by the greatest manufacturing plant in the world—the railroad system of the United States—for what it produces and sells; namely, transportation in enormous volume and in almost countless forms; the transportation of a package

of pearls by express for 1,000 miles; of a carload of broken oyster shells for 10 miles for a highway; of a commuter 20 miles a day in and out of a big city; of a trip of a lover of his country 6,000 miles from the Atlantic to the Pacific and back; of a letter from Portland, Maine, to Los Angeles, California; of a package of butter by parcel post from Prnceton, N. J. to Philadelphia; of a car of pig iron from Birmingham to Chicago; or of a car of cattle from Montana to Kansas City.

Railroads Must Be Ever Ready With Service

The railroads must be ready at all times with a most varied assortment of transportation for their customers. This transportation cannot be produced today, stored, and sold tomorrow; if not used when produced, it is wasted. The railroads must be ready to meet the maximum demand and must be compensated for the "readiness to serve" by the prices or rates they charge for the thousands of kinds of transportation that the public uses every day, and must have, if our country is to progress.

Not every one buys transportation directly; a great many people do not travel either for pleasure or business; never send a package by freight, express or parcel post. All, however, are directly or indirectly interested in the rates or prices at which transportation is sold.

Everyone also eats food, wears clothes of some kind, and nearly every one wears shoes, and all must have food and clothing, and yet the country does not spend a large amount of its economic and political energy debating methods of regulating the rates and prices on food and clothing, making the production of these two essentials more difficult and expensive to the buyer by restrictive laws, regulations, and interference with management, as is done in the production of transportation.

Billions of Railroad Transactions

Look at the number of transactions that the manufacturer of transportation has in a year, and what an enormous supply of varied forms this great manufacturing plant of the steam railroads must be ready to furnish to the buyers. The best available figures show the following for one year:

Passengers	1,060,000,000
Express shipments (estimated).	190,000,000
Freight shipments (estimated).	400,000,000
Total	1,650,000,000
Mail and parcel post (from P. O. Department)...	18,000,000,000
Total	19,650,000,000

Here are nearly twenty billion transactions with individuals all involving transportation, a number that cannot be visualized, and those transactions increase with every decade, for the reason that American civilization demands a larger amount of transportation per capita than any other nation. This almost inconceivable amount and variety of transportation is manufactured and sold all over the country under varying conditions — physical, climatic, social, with all the elements affecting cost and prices that enter into the manufacture of clothing, shoes, wheat, hotel accommodations, moving picture shows, etc. Wages, fuel, taxes interest, loss, accidents, etc., and always in addition the risk of having a large amount of transportation capacity that cannot be stored up and marketed and, therefore, is not used. Then there must be some profit in this manufacturing business or it will not grow to meet the demands of the buyers and they will suffer by not having a supply of transportation when they most need it. These different elements enter into the making of prices at which transportation can be sold—or the rates, as they are called—just as they enter into the making of prices on wheat, corn, clothing and shoes. There is no difference. The prices or rates are arrived at by the friction of commercial currents and the forces of life all over this country and to a certain extent throughout the world.

While there is nothing mysterious about rates, there are many complications. Lately there have been discussions about a scientific basis for rates. Exactly what is meant by this is not very clear, but some say the term means that there shall be terminal movement between the shipping and receiving points. Also that rates shall charges for receiving and delivering the freight and a haulage charge for the be higher on high-priced articles than those on heavy, coarse and cheaper articles, sometimes described as "basic commodities" with the idea that prices or rates for these latter can be reduced materially and the difference made up from the higher-priced articles.

People Recognize Basic Rate Principles

In a large way, these two basic principles have been recognized in the tariffs and classifications that have developed since 1887 when the Interstate Commerce Law was passed, but with countless modifications to meet varying conditions in this great country. These rates and classifications have become part of our national life and have received the approval of the people through the agencies established by them; namely, the Interstate Commerce Commission and the various State Commissions.

The United States could never have developed on a rigid mileage system of rates and to apply any such basis now to industry, mines, manufactures, jobbing, agriculture and the great development west of the Mississippi River with its countless human activities, social and educational, all created in the last 50 years, would disrupt commercial, agricultural and social relations to such

an extent that a chaotic condition would result and the development of the country would be disturbed and checked.

To make material reductions on basic commodities and obtain the revenue lost by such reduction through increasing the rates on other articles is an impossible task as the following figures show:

In 1922, the Interstate Commerce Commission reports that 234,882 miles of class 1 roads carried 1,859,484,476 tons of revenue freight. Of this tonnage 7 per cent is an extreme estimate of those high priced and bulky articles on which it may be possible to make some increases at this time, including all less than carload shipments, even if thousands of communities and individuals can be made to see that such adjustment is fair and the increases receive the approval of the Commerce Commission. On many railroads the percentage would be less than 7 per cent. Industry that has heretofore been developed on the present basis of rates, established through commercial friction and approved by state and Federal authorities, will naturally be slow to assent to increases as suggested. The other 93 per cent of the tonnage is largely, if not entirely, made up of

Products of agriculture and animals	268,000,000
Products of mines	922,000,000
Products of forests	173,000,000
Heavy manufactured articles and other so-called "basic commodities" on all of which it has been suggested that rates might be reduced	366,321,000
Total	1,729,321,088

as against 130,163,383 tons of commodities on which it is possible rates can be increased.

The Country Should Face Facts

In discussing the rate revisions, the country should face the facts and realize that it is not possible to increase the rates on 7 per cent of the tonnage, enough to make up for reductions in revenue on basic and heavy articles comprising 93 per cent of the tonnage. It cannot be done, and such a plan would make it very difficult for those roads that have been built quite largely for the development of agriculture, lumber and mining to sustain themselves and furnish the transportation needed, because they could not increase their revenue from other articles sufficient to make up for the losses in handling the heavy tonnage articles.

A road obtaining its chief revenue from handling agricultural products, lumber, coal and ore, could not make up the loss caused by a reduction of, say, 5 per cent in the rates on those articles by increases of any practicable per cent on the higher priced commodities, because there are not enough of them carried by that road. The increase in rates on such articles would benefit chiefly those roads that did not suffer from the reduction in rates on agricultural products, lumber, coal and ore.

This statement does not mean that railroad officers are not making and should not continue to make every effort practicable to fix and adjust rates so as to increase them on higher priced and bulky commodities, meeting existing commercial conditions and with due regard to sustaining the various properties, so that the transportation needed will be produced. This process is going on all the time by negotiation between railroad officers and shippers and communities.

Interstate Commerce Commissioner Lewis on Oct. 26, 1921, wrote to Congressman Sanders of Indiana giving a list of the rate changes (mostly reductions) made since the general rate advance of Aug. 26, 1920, usually referred to as Ex Parte 74. This list covered 36 pages of closely printed matter and the Commissioner says—

"It would be safe to say that during the year that has passed since the general increase following Ex Parte 74 at least a million changes of individual rates have been filed with the Commission."

The same kind of revision has been going on ever since and is in process today.

In considering the general level of rates, it is well to remember what was said by the Bureau of Statistics of the Interstate Commerce Commission about the railroad situation in 1922.

"On the whole, the present railroad situation, from the standpoint of railroad finance, clearly does not, on the one hand, warrant pessimism, nor on the other hand, at present, any radical reductions in total charges to the public. From the standpoint of the public, which is interested in adequacy of service and in the fairness of the charges, two facts stand out prominently:

"1. An enormous traffic has been handled in spite of strike handicaps.

"2. The average revenue per ton per mile is pretty well in line with the general level of the wholesale prices and there is no reason to believe that the general level of rates is retarding the business revival."

The business revival has come, and in many parts of the country agricultural conditions are improving. Since this statement was made by the Commerce Commission the general level of prices as a whole has improved, and if there were no reason for reducing the general level of railroad prices or rates in 1922 there is still less reason today with the railroads facing increased costs in every direction over those in effect a year ago.

The Government itself could set a good example, and perhaps add $60,000,000 a year to the revenue of the railroads by increasing slightly rates where

they could easily be borne in the charges for the various classes of mail matter which, as a whole, are now carried at a loss to both the railroad and the Government. The value of this service to the user of it is much greater than what is paid, which is much less than the user can well afford to pay.

Express and Mail Carried At a Loss

Express rates apply to small unit shipments, and these rates are of a kind that could and should be increased. That matter is now in the hands of the Interstate Commerce Commission. Today, the loss in handling mail and express has to be borne chiefly by the freight business.

In a general way, rates, like other prices, are fixed somewhere between the cost of the service as a minimum and the value of the service as a maximum. No manufacturer can afford to charge less for his product than the cost of producing it, for such a policy would eventually result in bankruptcy. The minimum point must, therefore, be the cost, so far as can be ascertained, which, in the cost of transportation, must include the cost of handling the business, moving the trains, a fair allowance for the maintenance of property and equipment, general administrative cost, and a margin for the payment of interest and other capital charges with, at the same time, some profit to sustain credit and attract new capital.

Interstate Commerce Commission's Power As To Rates

It is well to recall what the Transportation Act says on this subject:

"In the exercise of its power to prescribe just and reasonable rates, the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such rate groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation; provided, that the Commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable, and to prescribe different rates for different sections of the country."

The return on the railway property of the country for 1922 based on the Commission's tentative valuation was only 4.14 per cent and based on the amount shown on the carriers' books, only 3.68 per cent.

The maximum price on any article to be sold is the value to the buyer. Secretary of Commerce Hoover testified before the Interstate Commerce Commission in January, 1922, that "'what the traffic will bear' had some economic background." He is right. This much criticized phrase, "what the traffic will bear," describes a policy that within limits is based upon sound economic principles for making of all prices and rates. Sales of manufactured articles can only be made under prices that are no higher than the value of the article to the buyer, and no one ever attempts to get all that the traffic will bear, but strives constantly to adjust prices so as to develop territory, enlarge business and do the maximum amount. The manufacturer of transportation is particularly keen about this and is trying all the time to have rates or prices as low as is consistent with maintaining, operating and expanding the plant. Between the maximum of what the traffic will bear and the minimum of the bare cost of production there is a very wide margin where judgment must be exercised as to what constitutes a fair and equitable rate and the transportation act has endeavored in the paragraph just quoted to lay down a general principle.

Interstate Commerce Commission the Umpire

The people, in the Interstate Commerce law of 1887 and its amendments and the Transportation act of 1920, laid down a basis for settling most of the differences between sellers and buyers of transportation and selected the Interstate Commerce Commission as Umpire. Having selected the Umpire, it is not for the best interest of the country to show a lack of confidence in the Umpire. Either trust the Umpire or get a new one.

The Commission is devoting its time and accumulating knowledge in order to safeguard the true interests of the public, and this should mean that rates shall be sufficient to enable that public to have the necessary quantity and quality of transportation.

And yet today there is more or less effort under way to adjust this complicated system of rates or prices by direct action of Congress, which, with the very best intentions to help, has not the accumulated knowledge and experience possessed by the Commerce Commission to pass upon the justice of rates as between commodities, communities, and between railroads—the sellers—and their customers—the buyers of transportation.

Too Rigid Rate System

One danger in the rate system today is that there is too much rigidity; rates cannot be changed with reasonable promptness to meet changing conditions. Again, if a rate is made because of some condition in Florida, it is urged that necessarily the same kind of rate be made in Washington,

where conditions may be entirely different. This is not sound policy.

A sound policy for the railroads of the country demands the accumulation of reserves in periods of good business, which may serve to help out in times of poor business. Such a sound policy can be achieved only if the revenues and expenses of the railroads are so adjusted that during a series of years, including both periods of prosperity and periods of depression, there is realized a fair return on the average value of railroad property used in the public service. There is no other way in which the railroads can be in a position to share in periods of adversity without deferring maintenance, repairs and betterments. It is essential, therefore, that some way should be found in the process of administering the existing system of regulation to permit the railroads to share in the advantages of business prosperity, in order that they may be in a position to share without collapse in periods of business adversity. It is to be hoped that some day this essential truth will be recognized and put into practical effect by those who are charged with the responsibility of creating and administering governmental systems of regulation.

Considering the country and the need of steady growth of its transportation supply, regulation has encroached entirely too far on the field of management and by dividing responsibility and checking initiative, this policy has increased costs and with resultant rates higher than would have been the case if more freedom of action had been permitted.

Better and more prompt results for the public could be obtained if railroad managements familiar with local conditions—studying all phases of the business, anxious to go as far as possible to meet the needs of their customers—were allowed to make rates or prices subject to investigation and review by the commission; these rates or prices to be suspended only after a review that would disclose these rates to be contrary to public policy; reparation could then be ordered by the commission.

Under the Government regulation of today, changes in rates become a burden of proof upon the carriers, and these rates are suspended until extensive hearings have been held and a decision is reached by the Interstate Commerce Commission. This situation has been disastrous. For instance, it was obvious to everyone acquainted with the condition of transportation, that rates must be increased to the carriers in 1920 when they were restored to private control. The Government had permitted the roads to become economically unbalanced. Operating expenses had increased to such an extent that revenues were more than absorbed at the very time that the roads came back to private control. Under these circumstances, rate increases were not possible until the Interstate Commerce Commission had held extensive hearings. As a matter of fact, rate increases were not granted until August 26, 1920, when commodity prices had already broken in the market and industry was becoming rapidly less and less able to meet the extra charge. It is a situation that illustrates a real, vital issue in the transportation business today; that issue is how to make rates reasonably flexible and quickly sensitive to industrial and market changes.

Danger to Public Through Unjust Rates Eliminated

The Transportation Act gives to the commission very large powers to prevent unjust discrimination and extortion, or "profiteering;" it contains also a limitation of aggregate earnings so that any danger to the public of unjust rates is eliminated.

In view of these facts regarding the freight rate system of the country, it seems fair to conclude that:

1. Adequate transportation to meet the growing needs of commerce and industry, and good credit for the railroads so they can obtain new capital rather than lower rates, is the condition that should be sought.

2. A railroad rate is simply a price for service and not a thing of mystery; but the rate system is made up as a result of so many different factors that it is a most delicate and complicated mechanism.

(3) Service, which is the commodity sold by railroads, is a most perishable commodity, and unused equipment and trackage represents waste.

(4) It is impracticable to attempt to transfer much of the rate burden from basic commodities, which make up so large a proportion of the total tonnage, to those higher priced articles, which comprise a relatively small percentage of tonnage and produce a small percentage of revenue.

(5) Freight rates today are not hampering business, and adjustments are constantly being made to secure the most equitable rates possible; but the rigidity resulting from too stringent regulation and deferred changes prevents rates from being sensitive and quickly responsive to changing economic conditions.

(6) Between the maximum of "What the traffic will bear" and the minimum of the bare cost to the carriers lies a fairly wide field for the judgment and initiative of skilled railroad managers, subject to review by the umpire—the Interstate Commerce Commission.

In the preface to his friendly volume, "The United States in the Twentieth Century," Pierre Leroy-Beaulieu, one of the keenest foreign observers of conditions in the United States and a noted economist, uses this striking language:

"The essential condition to the development of energy is liberty. Every restriction on liberty, with however good purpose, diminishes the individual responsibility and initiative. Yet we often hear mooted in America, as elsewhere, measures which under the pretext of correcting abuses, would immeasurably extend the state's field of action, and reduce the liberty of citizens. It is my earnest hope that the American democracy will reject such enervating proposals, and will remain true to the virile and liberal traditions that have ensured the United States so wonderful a growth."

The country and its railroads were built up by the splendid energy and initiative of the American man. He was allowed more liberty in doing this work than he is today. There is grave danger that in an effort to correct abuses and errors incident to all human affairs harm is being done to development by reducing liberty of action. Leroy-Beaulieu is right.

Railroads Carrying Burden Of Regulatory Legislation

By RALPH BUDD
President, Great Northern Railway

Let us consider some misconceptions that are commonly believed about the railroads. The one most often encountered, in spite of frequent denials, is the statement that the Government guarantees the earnings. The provision in the Transportation act which gives rise to this erroneous belief is that which makes it the affirmative duty of the Interstate Commerce Commission to establish rates high enough that the railroads may be able, as a whole or in territorial groups, to earn a fair return upon the aggregate value of the property devoted to transportation purposes in that territory. There is nothing new in this: It simply states the law of the land. There is no obligation placed upon the Government by the Transportation Act to make up any deficiency of the roads as a whole, or individually, in case the so-called "fair return" is not earned. As a matter of fact, most of the railroads have failed to earn the return that Congress and the Interstate Commerce Commission fixed as a fair one, and the roads as a whole have fallen short by about one billion dollars of what Congress intended they should earn since Sept. 1, 1920, when that part of the Transportation Act became effective. No claim has been made by any railroad for reimbursement of this deficiency in spite of the fact that the Constitution of the United States itself might be invoked to prevent the establishing of rates on a basis lower than that necessary to provide a fair return upon the value of the property devoted to transportation use.

It is not quite clear what the critics of the railroads think they should be allowed to earn. In fact, if the transportation charges in the aggregate are not sufficient to pay a fair return upon the property devoted to transportation purposes, it is very evident that money will no longer be invested in the transportation business, and the inevitable result will be that the Government will be obliged to take over the roads. That may be what some critics have in mind, and it may be the reason why they do not favor the provision of the present law which directs that rates shall be so fixed as to enable the roads to earn a return upon the value of the property used for transportation purposes as a whole. But it must be that a great many others have not thought the question out very carefully because it is exceedingly unlikely that any large part of the public would seriously propose to deprive the transportation industry of earnings sufficient to pay a fair return upon the value of the property.

From an entirely selfish standpoint, the public cannot afford to have a rate basis so low that it will keep capital from seeking investment in the transportation business. The reason for this is that the cheapest possible transportation the country can have is the best it can have, and, conversely, the most expensive transportation is that which is poor and inadequate. The cost to industry through lack of good service and through inadequate transportation when needed is very much greater than the cost of transportation charges which will enable the railroads to prepare themselves to supply an adequate amount of good service at all times. Furthermore, the company that is financially able to provide itself with good facilities and an ample supply of cars and locomotives, and to maintain its property in good condition is actually able to give service at lower cost than the company which, on account of its property, is unable to improve its facilities so as to take advantage of operating economies that are possible through wise capital expenditure.

Another common misconception is that the railroads are allowed to earn on

watered stock. This cry led to the enactment (in 1913) of a law directing the Interstate Commerce Commission to ascertain the value of all railroad property in the United States. At that time it was claimed by the proponents of the law that such a valuation made by the Interstate Commerce Commission would disclose excessive overcapitalization. The valuation work is nearing completion, and based upon it the Interstate Commerce Commission has established a valuation for all of the railroads in excess of the par value of all railroad stocks and bonds, but less than the property investment of the railroads.

The tentative valuation upon the property of the Great Northern Railway Co. found by the Interstate Commerce Commission, shows the value of property owned for transportation purposes to be $386,175,302 as of June 30, 1915. This corresponds with the Railway Company's published investment at the same date of $382,045,268. In addition, the commission allowed $5,565,000 for working capital and for the value of materials and supplies needed for operation. This amount is not considered an adequate allowance. The company finds it necessary currently to have an average of about $20,000,000 invested in its material and supplies and in working cash.

The Bogie of Watered Stock

In addition to the property owned for transportation purposes the Interstate Commerce Commission shows that the railway company owned and carried on its books $227,076,313 stocks and bonds of other companies upon which the commission has not found a value. In this stock ownership is approximately 49 per cent of the stock of the Chicago, Burlington & Quincy Railroad Co., a half interest in the Spokane, Portland & Seattle Railway Co., and 604 miles of road which the Great Northern owns through subsidiary companies in Canada. The Interstate Commerce Commission states that there is outstanding $607,755,422 of Great Northern stock and bonds, which includes $215,227,000 of bonds issued against the Chicago, Burlington & Quincy stock, one-half of which was a liability of the Northern Pacific Railway Co. Deducting one-half of these joint bonds leaves $500,141,922 of stocks and bonds of the Great Northern outstanding, compared with $638,816,615 value arrived at by taking the Interstate Commerce Commission's tentative valuation, plus the value it found for non-carrier property, plus the book value of stocks and bonds of other companies owned, and compared with $643,508,265, which represents the railway company's book investments and an adequate allowance for materials and supplies and working capital. Since June 30, 1915, the Great Northern has increased its outstanding stocks and bonds by $40,836,397, and has added to its investment $82,375,879, making its capitalization as of Dec. 31, 1922, $540,978,319, and its investment $725,884,144. It should be borne in mind that the cost of reproducing the Great Northern's property would be very much in excess of its property investment.

This shows that according to the Interstate Comerce Commission's findings, the Great Northern has invested $138,674,693 more than its issue, at par value, of stocks and bonds. Since June 30, 1915, which was the valuation date, the investment of the Great Northern has been increased by $82,375,879, and the total par value of its stocks and bonds outstanding has increased $40,836,397, so that up to Dec. 31, 1922, there has been added a still further excess of property investment over stocks and bonds of $41,539,482, which brings the total excess to Dec. 31, 1922, up to $180,214,175.

Market Price As a Valuation Basis

Now, a theory has been advanced in an attempt to prevent the earning of a fair return upon the value of the property, as found by the Interstate Commerce Commission. This theory is that the market price of stocks and bonds should be taken at what they are worth. There are a great many reasons why this is not a proper means of determining the value of the railroads. It is necessary only to point out a few of these reasons.

One is the assumption that the price at which an almost infinitesimal percentage of the bonds and shares of stocks may change hands on the Stock Exchange is a fair index of the price at which all the stocks and bonds could be bought and sold. The shares of stock and the bonds bought and sold on the Stock Exchange will be found to represent an exceedingly small percentage of the total, because the great bulk of the stocks and bonds are held by persons who are trying to sell them and who are not tempted to sell them by the prices which are offered. The Great Northern has 2,495,000 shares of stock.

Perhaps on a given day on the Stock Exchange 1,000 of these shares may be sold. Perhaps in the course of a month or a year a great many thousands of shares will be sold, but in all probability to a very large extent these are the same shares which are being sold over and over again and the great body of the forty-four thousand shareholders of the Great Northern are not participating at all in those purchases and sales because they do not wish to sell and are not tempted to sell by the prices offered. Therefore, it would be absolutely unfair to measure the whole value of the property by looking exclusively at this one feature.

It is probably not necessary to do more than point out the fact that to

a very large extent the market price of railroad securities depends upon whether they are being so regulated as to enable them to earn a fair return on their value. If regulation has been such that the return is unsatisfactory, the market price will be forced downward. To establish a price thus artificially reduced as a basis for fixing a rate of return necessarily produces a low rate, and the low rate, in turn, further reduces the market price of the securities, thus establishing a vicious circle which automatically reduces the market price of the stock, and on this theory of rate making value, to nothing. The futility of all this is made very evident when it is considered that even if rates were reduced so as to completely wipe out all net earnings of the Great Northern Railway Co. from operation, the average rate reduction would have been only 13 per cent in 1921 and 17 per cent in 1922.

There is an impression in some parts of the country that railway rates are relatively much higher than prices of other things. The facts are that the average freight rate for the whole country in 1922 was about 46 per cent higher than for the average of the 10 year period beginning with 1900, while the average wholesale price of all commodities was approximately 79 per cent higher. In connection with these figures, it is interesting to note that the fuel cost per ton on the Great Northern for the month of October, 1922, as compared with the year ending June 30, 1916, increased 141 per cent; the average wage paid per employe per hour increased 115 per cent; while the rate per ton-mile for all freight (exclusive of iron ore) increased only 49 per cent during the same period.

While it is interesting and profitable to review and correct these misconceptions, nevertheless it seems best to confine ourselves chiefly to a discussion of what the future of the railroads may be.

A Billion a Year For New Facilities

In order that private operation may succeed, large investments must be made annually for many years. James J. Hill, in 1906, stated that to keep pace with the growth of the country the railroads should invest in new and enlarged facilities, one billion dollars annually. It is rather significant that in the year 1923 the railroads actually are proposing to invest considerably over a billion dollars. In considering the question as to whether the railroads are going to be able to keep on year after year raising this large sum of money, it is necessary to stop and consider the manner in which this huge sum is being raised. Practically every dollar of it is being borrowed either by placing a mortgage on the property or by increasing the amount of debt under a mortgage already existing. This method of financing has been going on for some years past because it is the only way in which new money can be raised for railroad business. Any business man knows that it is not sound financing to continue indefinitely in this way. The result already has been that in 1923 the funded debt of the railroads is 40 per cent more than the capital stock while in 1913 it was only 20 per cent more.

It is evident that a change must be made in the method of financing. That change can only be made by a performance on the part of the railroads which will convince investors that railroad stocks are a desirable form of investment. There is no law that can coerce the investor into placing his money where he believes it is insecure, and there is no possible way in which the present increasing ratio of bonds to stock can be checked except by actual results which will show not only that the railroads can earn a fair return on their value, but that they are going to be permitted to do so. Perhaps someone will say it would be a good thing if the Government would take the roads over and operate them. From the standpoint of the bondholder and stockholder, possibly that is true, but for shippers and the country at large it is another matter. This demand for Government operation was made with great force prior to 1917, but actual demonstration of Government operation for 26 months convinced the public that the transportation bill the public must pay would be much lower if the roads were operated privately. It is, after all, a question of how to operate the roads in the cheapest possible manner. It is comparatively easy to prevent excessive profits being made and for that reason everything the public can do to leave the railroad managements unhampered in the handling of their business will help to reduce the transportation bill of the public. But the cost of performing the service must be paid, and, in addition, whether operated privately or by the Government, an allowance must be made for the value of the use of the property. At every session of practically every state legislature, many bills are introduced which, if enacted into law, will greatly increase the cost of operating the railroads, and yet there are those who do not see that every such law simply increases the bill for transportation which the public must pay.

It seems clear that unless private operation of railroads can be placed on a stable and satisfactory basis in the comparatively near future, we must inevitably drift into Government ownership, or at least Government operation, even though it be not the desire or intention of the majority of the people. One thing should be well understood—it is, that should the Government take over the roads and pay for

them what they are worth, it would not be the owners of the railroads who would suffer most from such a procedure, but the shippers who would be obliged to pay higher rates.

Possible Failure of Private Operation

Now, having considered the possibilities of private operation failing through inability to establish railroad credit in order to keep pace with the needs of the country, it is necesary to consider what can and should be done in order to insure the success of private operation.

It is axiomatic that the return after paying operating expenses must be sufficient to encourage the investment of new money in the railroad business. This return must be stabilized. It can be done in only one of two ways, viz., by keeping expenses down or by getting earnings up. It is not my desire to see railroad rates further advanced. Rather, I think they should, like other things, come down in price, but if all elements which enter into railroad costs continue to advance, railroads rates must advance also. Certainly they cannot be further reduced until the cost of producing transportation can be reduced.

There are several ways in which the cost of transportation can be brought down. The principal items which make up operating expenses are wages, fuel, other material and taxes. It is possible to reduce labor cost without reducing wages. Some of the ways in which this can be done are by obtaining more efficient performance of the individual employe; but keeping abrest of the development in modern shop methods, tools and appliances; by further perfection of motive power and cars; by making improvements in terminals; and by making grade reductions and otherwise improving the roadbed. Such additions and improvements, of course, involve investment of additional capital. This emphasizes the need, which is encountered at every turn, for established credit in order to give the best service at the lowest cost consistent with prevailing conditions.

There is one thing which is especially applicable to this section of the country which I believe would greatly reduce the cost of service and at the same time improve the service: That is the consolidation of some of the roads into a lesser number of large systems. The particular consolidation which would affect you very vitally is that of the so-called "Hill Lines," the Great Northern, Northern Pacific and Burlington. By consolidating these lines, a very much more intensive use can be made of existing facilities. Much greater service can be obtained from the equipment now owned by the three companies and a much greater insurance of car supply can be given the communities served.

In addition to these things which can and should be done, there are two ways in which the shippers can contribute very largely. The first is through heavier car loading, and the second through less detention of cars including delays in loading and unloading and in holding for inspection and diversion. It is obvious that loading the cars heavier will increase the available supply of cars and in the same way a lesser amount of detention of cars and a discontinuance of the practice of holding cars for diversion enroute would help. The practice of detaining cars means, of course, that they are virtually converted into warehouses, an expensive proposition, especially when its cost is the crippling of the transportation machinery of the country.

A very important thing is that the railroads be given a period of rest from further legislation. There are at work two distinct groups seeking a change n Federal legislation controlling the railroads. One is actuated by a desire to obtain lower rates because they think it will make them political capital among certain classes and may lead to Government ownership, which they earnestly desire; another group favors a change in legislation because they think the present laws are not favorable enough to the railroads.

Present Laws Should Remain

It seems very much wiser to make no change in the present Federal laws regulating the railroads until the policy which governed Congress in enacting the present law has been clearly demonstrated to be wrong or unworkable by failure of the railroads to succeed under the present law in a period of normal times. The three years that the present law has been in effect have been years of unprecedented turmoil industrially and it is not to be supposed that any regulations, however excellent they might be in normal times, would succeed during such a period.

Assuming that the end sought is lower railroad rates and more and better service, it is not clear what those who advocate abolishing the Labor Board and having its duties performed by the Interstate Commerce Commission are criticising specifically. What they believe the two agencies acting separately have done that would or could have been done differently to advantage, had they combined in one agancy, is not stated. As the improvement of railroad credit is imperative in order to provide more and better service, it might be said that the Interstate Commerce Commission, had it dealt with both rates and wages, would not have reduced railroad rates so much. This result, however, would be inconsistent with the idea that rates should be reduced still more.

The other assumption, and the only one which would suggest a real remedy, is that it is thought the Interstate Commerce Commission would have reduced wages more than the Labor Board did. There does not seem any good reason for thinking that this could be accomplished any better through the Interestate Commerce Commission than through the Labor Board. While the general proposition that one agency should not fix expenses and the other fix selling costs is appealing, it should be remembered that so long as the demand is for lower rates, the complaint against these two agencies acting separately is a complaint against the one which failed to reduce expenses. In fairness to that agency, the Labor Board, it should not be forgotten that its efforts to reduce wages resulted in a disastrous shopmen's strike because the men would not abide by the Labor Board's order. While there seems no good reason to believe that the Interstate Commerce Commission would have been any more successful in avoiding the strike, neither is there any certainty that without the Labor Board or the Interstate Commerce Commission having anything to do with labor matters there would have been any less trouble.

Since 1920, and prior to the shopmen's strike, practically every effort on the part of the railroad managements to negotiate wages and working conditions resulted in a dispute with the employes which had to be taken to the Labor Board, so that instead of being a board to handle occasional disputes, it was, in fact, obliged to handle practically all labor negotiations. It seems altogether likely that the shopmen's strike was so barren of results to the employes, and so costly to both the employes and the railroads that it will result in more direct negotiations between the managements and the employes to the end that labor matters will be settled locally without disputes going to the Labor Board.

What the country needs made than anything else to enable railroad transportation to perform the part it should in the nation's business is a rest from change in policy towards the railroads. The promise of improvement in the Transportation act by amending the Labor Board provisions does not nearly offset the danger of damage that may result from changing the policy of railroad regulation as expressed in the Transportation act. I think it would be far better to give the Transportation act a further trial in what we hope will be more normal times than any that have been experienced since its enactment in 1920.

It is reasonable to expect that the next twelve months will afford a better test of the present law than the three past years have afforded. In the meantime, acting upon faith in the fairness of the American public, the railroads are proceeding to provide improved facilities and an increased number of cars and locomotives to cope with the increased business. The Great Northern is doing its full share of this work. Its improvement program for 1923 calls for the expenditure of $30,000,000. Approximately $20,000,000 of this will be new investment. Along with this program of increased facilities there is being introduced every improvement in operating methods that can be devised.

Railroads Handicapped By Wrong Regulation

By SAMUEL REA,
President, Pennsylvania Railroad System.

The railroads of the United States, as they stand today, constitute an unrivaled monument to American business genius and enterprise. The truth is often obscured by the fact that the enemies of the railroads—those who are trying to bring about such a state of confusion and misunderstanding that Government ownership will be the only way out—sometimes try to represent the railroads as decrepit and broken down. Nothing could be farther from reality. Our railroads are today beyond comparison the finest, the best equipped and the most efficiently operated in the world. They would be hailed as a marvelous blessing by the people of any other country, could they be taken up and transported there.

What has happened to our railroads is something very different from a physical breakdown or deterioration. It is a condition of serious congestion due to the fact that the volume of traffic pressing for movement is very often in excess of the capacity of the plant for handling it, with promptness and regularity. In recent years this situation has been encountered in every period of business activity and consequently has operated as a powerful factor in checking prosperity whenever the volume of trade has passed a certain point.

The resulting losses have been severe. Perhaps no one can say with accuracy what they have reached; but one authority, at least—Secretary Hoover—has expressed the opinion that every important period of car shortages and

other forms of transportation insufficiency, in recent decades, has cost the nation not less than a billion dollars in lost production, trade and employment.

Importance of Roads

Railroads are of far more outstanding importance to the United States than to any other country in the world. Practically our entire territory was opened up and developed by them. They are today the frame work by which our whole economic structure is held together. It is axiomatic that we cannot produce and sell more than our railroads can carry; their capacity is the absolute limit to the volume of our commerce. To no other nation, in either hemisphere, do such statements apply in equal degree. Hence it might be a reasonable expectation that the Government of a country in which railroads are of such transcendant importance to the welfare and prosperity of the people should have done all in its power to foster and encourage their development and progress. That this has not been the case is indeed one of the strangest facts in our political history.

I am no enemy of regulation. I recognize it as a proper function of Government when its true purposes are understood and it is confined to its proper field and scope. But the fact remains that the great era of railroad progress in the United States was almost entirely confined to the period before anything like regulation, in the forms it has assumed in recent decades existed. We have had "regulation with teeth" since the early 1900's. Before that time, the railroads were conspicuous as leaders of the country's advancement and development. They kept not merely abreast, but ahead, of the nation's needs, and had a reserve capacity to take care of boom periods and extraordinary demands.

Since the advent of "toothed" regulation—which really means the transfer of powers of management to Governmental agencies—this condition has been steadily altering and has finally been completely reversed. Today the capacity of the railroads lags behind the country's needs, checking instead of facilitating general progress. In late years the gap has been increased to a marked degree.

Service Demands Tripled

In the last two decades, the demands upon the railroads for service, measured in ton-miles and passenger-miles, has more than tripled, while the investment in the railroad plant has failed by a considerable margin even to double. The load on the plant has been growing more than twice as fast as the capital put into new facilities, and if we allow for the rising prices and the declining purchasing power of the dollar during the period in question, the discrepancy between the increase in the demands for service and the increase in the actual facilities available must be still greater.

The failure of the railroad industry to attract anything like an adequate amount of new capital during the last 15 or 20 years constitutes, to my mind, the most unanswerable indictment that could be drawn of the theories of and views of regulation that have generally prevailed up to the present time, or at least until very recently. Regulation that stunts growth and kills advancement has fallen down on its primary purpose, which should be the encouragement of railroad progress,—the country's greatest need.

Two Fundamental Errors

To my mind two fundamental errors have been made. One to which I have already made reference, consists in confusing the functions of regulation with those of administration. In consequence today the Federal and state authorities exercise, or attempt to exercise, detailed control over many purely administrative questions between management and employes, including, as is well known, the fixing of wages and working conditions, hours of service and size of train crews. Other governmental activities regulate arrangements for financing, purchases of materials, choice and election of directors, preparation of statistics, safety methods, signaling, the character of ashpans used in locomotives, the types of headlights, the inspection of boilers, the carrying of explosives and many other details of administration and management, some important and some trivial.

Moreover, it may be noted that in many cases the requirements of the various states are not in harmony with each other or with the Federal regulations, the whole constituting an intolerably vexatious interference with orderly and efficient management.

Keeping Roads from Profits

In the rate filed, the authority of the Federal Government is well night complete, and power has been almost entirely taken from the railroad managements.

Hence we have a condition in which governmental authority controls the railroads' revenues, through rates and their expenses, to a large extent, through wage regulation; while responsibility for results rests definitely nowhere.

The second error which appears to me to have long been inherent in our regulative policies, lies in supposing that one of the chief functions of regulation is to keep the railroads from making profits. There has been in evidence an attempt through long periods to hold rates down to the very lowest levels which avoid constituting outright confiscation. As a matter of fact there has been what actually amounts to a partial confiscation, in practical results, if not in the legal sense. Our railroads represent an honest and real investment in road and equipment devoted to the public use of fully 20 billions of dollars. The securities representing that investment are today worth in the open market only 12 or 13 billions. There has been a loss somewhere, to some people, of seven or eight billions of real value. The losers have been chiefly the people whose savings built the roads, whether through individual investments or through our great fiduciary institutions, the savings banks, trust companies, insurance companies, etc., in which nearly half the people of the nation have an interest.

As a result of this policy of restricting earnings to the minimum, long followed by the Interstate Commerce Commission, the railroads were for years unable to advance their rates even moderately to keep adequate pace with the almost constantly advancing level of general prices which has marked three decades. In consequence, when rates were finally advanced, facilities were inadequate and remain inadequate to the present day.

Returns Inadequate

For fifteen years or more, the railroads have not been given the opportunity to earn as an average, even 4 per cent on the investment in their properties. Every business man knows that no form of enterprise can permanently stand on its own feet and keep pace with general progress on such inadequate returns. Railroad prosperity, when it existed, was one of the most beneficial and stimulating influences the country ever experienced. A few prosperous railroads today would be among our greatest national assets.

Years ago, on the Pennsylvania Railroad, we paid our stockholders 6 per cent and nearly always had something substantial to put back into the property out of earnings. In good years we followed the rule of a dollar for dividends and a dollar for the property. It was a good sound rule, and if we had not followed it for so many years, I am free to say that our road would have hard sledding today.

The chief need of the times is to bring back railroad prosperity once more. That means restoring railroading to its old position as a profit-earning industry, in order that it may again attract adequate capital for the proper expansion of lines and facilities. I think for the present a rest politically is the most urgent requirement in this direction.

We are operating under the Transportation Act of 1920, a measure which is doubtless not perfect, but which nevertheless represents by far the most constructive and encouraging piece of railroad legislation ever passed by Congress. We should give it a more adequate trial before deciding what, if any, changes are needed. Rates should be stabilized for the present at their present general levels. Individual adjustments may be needed, and if so, should be made, but there should be no general reduction until the possibility of earning at least the 5¾ per cent fixed under the Transportation Act is demonstrated. Above all, there should be no discriminatory reductions, designed to benefit selected classes of the population at the expense of others.

The railroads need only the opportunities that are accorded to other forms of enterprise to resume their old position of leadership in the progress and advancement of our people.

Cost of Shopmen's Strike; Attitude of the Unions

By W. G. BESLER,

President Central Railroad Co. of New Jersey.

Whatever may have been the cost of the Shopmen's Strike, to that majority of the railroads who refused to surrender principle for expediency—the results have justified the expense!

Insofar as the minority is concerned, the following is an abstract from a letter written by a gentleman whose intimate and "inside" knowledge of the situation is unquestioned:

"But it is proper that I say to you that my observations satisfy me that the companies which settled with the striking shopmen last fall on the basis of the so-called Jewell agreement, after the men were thoroughly beaten and were returning in droves unconditionally to work, will meet a much more serious situation with these same men during the coming fall, or before long."

His conclusions have apparently already been borne out by what is and has been taking place upon those Railroads where the remnants of the Federated Shop Crafts still exist.

Those railroads upon which new organizations were formed by the employes in accordance with specific direction and request—first from the Labor Board in its proclamation of

July 3, 1922, and, second, as contained in the declaration from the President of the United States in his statement of July 11, and which have commonly been called "Company Unions"—have solved the problem as between employer and employe, and preserved the principle of collective bargaining, with the elimination of the vicious domination involved in "Absentee landlordism" as exercised by the federated shop crafts in their program of nationalization.

All of the requirements of the Transportation Act, 1920, Title III, Sections 300 to 316, have been recognized, preserved and incorporated in the company organizations.

From the standpoint of the unions, it is understood that prior to the strike word was passed around among the men that if a strike was called, it would only be in the nature of a demonstration lasting for a few days, when everything would be settled and they would receive all that they asked, and for which they had as a precedent what had repeatedly been the case under Federal control.

From the standpoint of the companies, the cost of the strike in dollars and cents is de minimis as compared with the results being secured by the increased efficiency and the spirit of helpful co-operation under present conditions.

"By their works shall ye know them"!

Misdirected Regulation Big Factor in Railway Situation

By ARTHUR T. HADLEY,

President-Emeritus Yale University and Chairman of the Railroad Securities Commission 1910-11

To the superficial observer, the railroads of the United States seem to be in prosperous condition. The volume of traffic is large—larger, in some cases, than the companies find it easy to handle. Improvements in track and in locomotives have enabled us to transport this traffic in heavier train loads than ever before, and with correspondingly increased economy. And, last but not least, the rates which the railroads are now permitted to charge give the majority of the companies a fair profit under these conditions.

If railroad transportation were a purely private business, subject only to the ordinary restrictions which are imposed on every merchant or manufacturer, these facts would be enough to show that our companies were prosperous in reality as well as in appearance. But the railroad is not an ordinary private business; it is a vast public agency. It is never in satisfactory condition unless it has the superabundance of power which is needed for meeting public expectations in an emergency. It must be able to offer adequate service and prompt delivery, at rates which will encourage travel and will allow farmers and manufacturers to sell their goods in distant markets. The investors who put their money into railroads assumed this sort of responsibility when, as the legal phrase goes, they devoted their property to public use. The railroad managers and operators recognize it and desire nothing so much as the necessary powers to meet it effectively.

In no other country is this responsibility so heavy as in the United States, for in none is the dependence of the country upon its railroads so complete. Our people travel further than Europeans; and, what is of still more consequence, they ship their goods to longer distances. A great deal of our Western wheat must go to the Atlantic seaboard to find ready sale; a considerable part to Europe, if our farmers are to remain prosperous and not break the market by "dumping their surplus" at home. The same sort of thing is true of cotton, and many other agricultural products. For the handling of this long distance traffic, and the making of rates which will enable the producer to market it at a profit, we depend upon the railroad. Steamships and barges can take care of our goods upon some routes; but not upon many. Automobiles can carry a part of them for short distances; but the physical volume of the transportation which they can handle is only a small fraction of the whole. Even if we had enough machines and enough good roads for the purpose, we could not get gasoline enough without exhausting the available supply or making the cost prohibitory. Our chief reliance for getting our products marketed, now and for many years to come, must apparently be our railroad system.

What a Railroad Needs

For an industry to be really prosperous which carries such obligations, something more is needed than a satisfactory income account for the past year or current budget for the next. It must be in a position to meet all reasonable public demands and perhaps some unreasonable ones. If an automobile manufacturer cannot furnish as many cars as the public wants, nobody curses him; people pay him a scarcity price for what machines he has, and admire him for his skill in making money. But if a railroad cannot furnish cars enough for all emergencies, it is regarded as a dereliction of public duty; and if a railroad manager attempted to make car scarcity a reason for charging higher prices he would be publicly condemned and probably sent to jail.

To be in a really sound condition a great railroad system like ours must in the first place have abundance of appliances for handling traffic; not simply cars enough to meet the average demand throughout the year, or power enough to handle them under average conditions, but cars enough to take care of the varying demand for coal or wheat transportation at different seasons, and power enough to move them when cold weather or congested tracks make service difficult. In the second place, there must be loyalty and discipline among the railroad employes. Either individually or through their organizations, they must be co-operating with the owners in maintaining continuous service at reasonable rates. They must accept the same kind of obligations toward the public that are imposed on railroad investors or managers, and not permit themselves to make public inconvenience a source of private gain. In the third place, railroad owners must have the chance of profit which goes with the assumption of special burdens or hazards, and railroad managers must be given the kind of freedom and recognition which is habitually accorded to men who carry heavy responsibility. If our farmers and our exporters are to compete in the markets of the world, under the conditions created by the war and the tariff legislation which has followed it, our railroad officials, both in the operating and in the traffic departments, must be given all practicable liberty and encouragement to try out new methods of handling and developing business. Railroad administration must be made an attractive career for men of brains.

Present Conditions Unsatisfactory

In none of these respects can present conditions be called satisfactory. Complaints of car shortage are frequent; complaints of locomotive shortage, particularly in winter, are still more frequent. Passenger trains fail to run on time; freight deliveries are impeded by congestion or indefinitely postponed by embargoes. The labor situation is no better than the equipment situation. Large sections of the employes fail to recognize their public responsibility at all. In the summer of 1922 the railroad shopmen's union took advantage of the shortage of power then existing, to order a nationwide strike; in the hope of so crippling the traffic of the country that the roads would be compelled to pay their shopmen wages which the Railroad Labor Board had declared to be unreasonable. And, though this strike failed, the immunity of its leaders from legal proceedings and from any lasting reprobation, invites the recurrence of similar dangers. The progressive railroad manager who wishes to experiment with new means of developing or handling traffic receives scant encouragement. He has to take days of time in explaining the public necessity of what he is doing to commissions which have a natural distrust of experiments devised by any experts except their own. Forty years ago, railroad administration was an attractive career to men of independent power. Today the chances for independence are so curtailed that the career is ceasing to attract a sufficient number of young men of the first rank. It has been made a jail offense for a railroad man to try to know more about the economy of his business than the Interstate Commerce Commission thinks is good for him. The provisions of the law are worth quoting. "Any person who . . . shall keep any other accounts, records, or memoranda than those prescribed or approved by the commission shall be deemed guilty of a misdemeanor, and shall be subject, upon conviction in any court of the United States or competent jurisdiction to a fine of not less than $1,000 nor more than $5,000, or imprisonment for a term of not less than one year nor more than three years." (See Section 20 of the Interstate Commerce Act as quoted in Judson on Interstate Commerce, 2d edition, §403.) An examination of the whole section indicates that this clause was not an accident of drafting, but an attempt to suppress free thought by someone whose zeal for railroad regulation outran his discretion. Nobody has actually been sent to jail under this clause; but the attitude which underlies itis unmistakable, and has done a good deal of harm.

Factors Against Stock Investment

Under circumstances like these, few people want to put their money into railroad stock. In the year 1920, the need of new money for railroad development was unusually large. It was in February of that year that the roads were returned by the Government to their owners. Improved facilities were urgently required—partly to make up for the forced economies of previous years, and partly to enable the companies to handle the increased volume of traffic which peace brought with it. Some of these could be paid for out of current income; but much the larger portion, amounting to a total of over $544,000,000, was designated by the Interstate Commerce Commission as actual increase of capital, and so charged on the books. Of this amount, the total paid for by new money from the sale

of capital stock was $511,500; less than 1 per cent of the whole. The rest was secured by running into debt. Thirty-five million dollars of new stock was issued by various companies—most of it by the Southern Pacific—in exchange for convertible bonds in fulfilment of old arrangements. But none of the new money for improvements was, or could be, raised by this means.

Let us put this matter into figures of a size which we can visualize. On the 252,215 miles of railroads reporting to the Interstate Commerce Commission an average of something over $2,158 per mile was spent for necessary improvements to road and equipment during the year 1920. Of this amount $2.00 per mile was contributed by stockholders; for the remaining $2,156 per mile the railroads were compelled to run into debt to do their work.

We must not be deceived by names. The fact that most of the debt took the form of railroad bond issues should not blind us to the real character of the transaction. It will not do to say, "railroad bonds are an investment just as much as railroad stock, and amount to substantially the same thing in their effect." From the standpoint of sound railroad finance or development they are not. If a merchant extends his business by borrowing and owns no larger margin of property above debt at the end of the year than he did at the beginning, we shake our heads. If the whole increase of farm values in any district is swallowed up by an increase of farm mortgages, we recognize that farming is in a precarious condition. Running into debt without increase of capital stock is not much better business for a railroad than it is for a merchant or a farmer, nor more likely to enable it to serve the public effectively in times of stress.

The questions confront us: First, how did we get into this condition? Second, which way shall we move in order to have the best chance of getting out of it? The answer to the first question is a part of railroad history which we need to know in order to be able to judge the second question wisely.

When the Railroads Thrived

During the quarter century which followed the resumption of specie payments in 1879, the railroads of the United States, judged from the standpoint of capacity to tender public service, were generally in good condition. We built new roads quite as fast as we needed them, and we improved old ones to keep pace with the growth of traffic. Freight rates per ton-mile fell 40 per cent. The business of the nation as a whole was not seriously interrupted by railroad strikes, or menaced by the threat of such strikes. There were troubles of this sort on individual systems, but not a great many of them. The men at the bottom as well as at the top felt that railroading was a career where a hard worker had a chance for promotion from the very beginning and for public appreciation at the end.

Of course the roads themselves were not always prosperous. Where too many lines were built in any given district there was not traffic enough to pay for all, and all suffered until more people moved in. When there was a commercial crisis, as in 1884 or 1894, railroad securities fell along with other securities. But the property was in a better position to stand such vicissitudes than it is today. Half of the outstanding liabilities were in the form of capital stock, whose dividends could be increased in good years and reduced in bad ones without disturbing the rights of the holders or the general conditions of the money market. Any business man—or for that matter any farmer—knows how much better it is in weathering rough conditions if your property is mortgaged for less than 50 per cent of its apparent value instead of for more than 60 per cent, as it is at present.

What was the secret of the growth and prosperity of the railroads in the closing years of the last century? It is to be found in the intelligent and appreciative attitude of the public toward railroad men and railroad problems. There was a general recognition that the prosperity of the country was bound up in the prosperity of the railroads; that the permanent interests of the shippers and the stockholders were seldom if ever far apart; that progress in railroading as in other lines, was to be sought by giving people as much liberty as possible to make their own experiments; and that legislation in a free commonwealth should seek to restrain specific abuses, rather than to deprive property owners of their freedom and their initiative on a large scale.

Two great men were on the scene of action who knew how to take advantage of this state of mind and make it the basis of a constructive policy—Albert Fink, of Louisville, from the side of the railroads and Charles Francis Adams, of Massachusetts, from the side of the public authorities. The political economy of railroads, as Adams and Fink developed it, may be summed up in two paragraphs.

1. The railroad is not removed from the action of competition to the extent which is commonly supposed. It must develop the district which it serves, in competition with other districts and perhaps with other countries—for instance, when it becomes a question of enabling the American farmer to sell his wheat at Liverpool. To do this it must adapt its rates for different classes of traffic to the needs of business. The best way to protect the local shipper is

to see that he gets the full benefit of this indirect competition by laws providing for equality of treatment and publicity of rates. The permanent interests of the railroad owners no less than of the public demand such equality. For the road that charges high rates when there is no competition kills its own best customers for the sake of a purely temporary gain.

2. Even apart from such competition, additional capital put into railroads means lowering of rates. Scant capital means high operating expenses for each unit of traffic; a road which has cost little per mile can make money only by charging high rates on a small volume of business. Abundant capital means low operating cost per unit of traffic. A road with first-rate grades and bridges and track can handle two or three times as heavy loads as an inferior line with a given expenditure for fuel and wages. Its primary interest is to develop large business: for the sake of doing this, it will, if left free to pursue its own interest, reduce its rates lower than the cheaper line would think of doing for itself, or could be forced to do by public authority.

History of Railroad Rates

The best proof of the soundness of these general views is found in the history of railroad rates. During the last half century the years in which railroad legislation was most fully under the dominion of these ideas were those from 1880 to 1886. This was the time when there was least restrictive legislation and greatest freedom given to railroad men to make progress in their own way. During this period railroad charges on freight per ton per mile fell from 1.29 cents in 1880 to 1.04 cents in 1886—quite as rapidly as in any subsequent period of equal length.

Unfortunately the progress towards equalizing charges was not so satisfactory as the progress towards lowering them; and the Interstate Commerce Act of 1887 was passed to correct this difficulty. But the Interstate Commerce Commission, headed by the eminent jurist Thomas M. Cooley of Michigan, accepted heartily the general principles of railroad economics which Adams and Fink had developed. For 20 years the commission was occupied with correcting individual abuses of power, rather than with actual rate-making.

These two decades form 1887 to 1906, when the companies retained their initiative, and the commission exercised supervisory powers on the lines laid down by Judge Cooley, were from the public standpoint the most satisfactory period in the history of American railroading. In spite of two severe commercial crises the railroads were able to maintain their service on an efficient basis and to keep pace with public needs. While freight rates fell from a cent a ton a mile to barely three-quarters of a cent, traffic and earnings increased so fast that the ratio of net income to capital rose from 4 per cent to 6 per cent. This state of things enabled the companies to offer good wages to railroad labor, and good prospects to railroad investors. Good wages for labor and the opportunities of promotion that went with them, meant loyal and continuous service to the public. Good prospects for investors meant that the companies could build the new tracks and buy the new equipment which was needed to take care of the increasing business promptly and economically. Never was the principle better illustrated that good business means advantage to both sides.

Birth of "Watered Stock" Idea

But as time went on large groups of shippers began to think that the railroads were getting too much of the total advantage. Few of them would have objected to a return of 6 per cent if they had believed that the nominal capitalization represented our actual investment of money by its equivalent. But they had been led to think that railroad stock was mostly "water"—certificates issued to make it look as if the investment were much larger than it really had been, and serve as an excuse for charging higher rates than were really fair or necessary. It is easy to see how this view came to prevail. In the large manufacturing trusts or combinations of capital which were organized in almost every line in the years from 1898 to 1902, common stock frequently, and perhaps generally, was water—it represented good will and capitalized expectations, rather than actual physical investment. And though this was apparently not true to anything like an equal degree in our large railroad consolidations there had unfortunately been two or three conspicuous instances of railroad stock-watering, like the Rock Island or the Alton, which were exploited to the utmost by magazine writers or political partisans, and gave the public a wrong idea of the general situation.

The result was that the attitude of the public became less friendly to railroads and railroad stockholders than it had been; and that a series of acts was passed which had the effect of taking from the hands of the railroad officials much of the initiative and independence which they had previously possessed. By the amendatory acts of 1906 and 1910 the power over rates which had been granted the commission under the Interstate Commerce Law was greatly increased, and the freedom of the traffic officers of the roads correspondingly diminished. The Safety Act of 1910 had somewhat the same effect in restricting the discretion of the operating officers. The original Safety Act of 1897 had simply

demanded results; the new act empowered the commission to prescribe the means which should be used to attain these results.

Rates Ordered Cut as Prices Rose

It was unfortunate both for the Interstate Commerce Commission and for the country that this legislation was followed by a period of rising prices. For if prices had remained stationary, it is not probable the commission would have used its new powers to reduce railroad freight charges 23 per cent in 5 years. The fact that the railroads were already paying out 70 per cent of their net earnings in operating expenses and taxes would have shown the obvious perils to railroad efficiency and solvency which such a course brought with it. But the commission did what amounted to the same thing when it reduced freight rates 5 per cent between 1911 and 1916 while general prices were rising 24 per cent. The only way in which the solvency of American railroad companies could be maintained in the face of such drastic action was by increasing train loads and keeping wages down.

Much was done in both directions. The average number of tons carried in freight trains was increased nearly 40 per cent (from 383 in 1911 to 534 in 1916) during the period in question. The rates of pay of railroad men were kept as low as was humanly possible. But it was not to be expected or desired that the wages of railroad employes should remain unchanged while the cost of living went up 24 per cent and wages in other industries were advancing correspondingly. The time came in 1916 when the railway brotherhoods threatened a nation-wide strike for an advance of their wages to correspond to the new price level; and the inability or unwillingness of the companies to meet this demand led to the passage of the Adamson Law of 1916, which took the control of wage scales out of their hands, and left the determination of their wage rates to a new and independent authority called the Railroad Labor Board.

Investing Public Alarmed

The investing public had already taken alarm at the Acts of 1910 and the misjudgments that were connected with them. It had become difficult to market railroad stock. The companies were compelled to run into debt in order to provide the increased facilities which were needed to enable them to handle the business which the public offered. The report of the Railroad Securities Commission of 1911 emphasized this fact and called attention to the dangers which it involved. The apprehension expressed in this report were only too fully justified by subsequent events. The power of the weaker roads to borrow, and the willingness of the stronger ones, were gradually exhausted. Railroad facilities failed to keep pace with the country's growing needs. While the freight traffic of the country increased from 253,784,000,000 ton-miles in 1911 to 343,477,000,000 in 1916, or more than 35 per cent, the number of freight cars in which to handle it increased only from 2,196,000 to 2,327,000—just under 6 per cent. The total number of locomotives increased still more slowly—from 61,327 to 63,862, or only about 4 per cent. The climax was reached in 1917, soon after America's entry into the war, when the Government stopped all deliveries of locomotives in order to utilize the steel mills for munitions exclusively. The winter of 1917-1918 found us, as a result of a series of mistaken measures, actually short of physical means to put the goods we had produced into the places where we wanted them.

The administration did the only thing possible under the circumstances. It cut the knot into which the country had tied itself by taking the management of the roads into its own hands as a war measure; reversing its policy on locomotive delivery and ignoring the authority of commissions when they seemed likely to interfere with its own ideas of efficient operation.

Government Management a Failure

But while Government management had the advantage of being free from the shackles which had been placed on corporate management, it did not prove a success from an economic standpoint. While some sources of waste were eliminated, new and greater ones were introduced. Costs went up; revenue stayed down. Even after the conclusion of peace the Government did not venture to devise a rate system in any way adapted to post-war prices and conditions. In no year of Government operation did the railroads pay interest on the capital invested; but one year they failed to meet current operating expenses. The resulting deficits were made up by increase of public debt. The roads were returned to the companies short of current assets, short of equipment, and, unless something was done to relieve the situation, short of present credit or prospecive income.

The impossibility of expecting the railroads to meet public needs under such conditions was so obvious that an act was passed by Congress at the beginning of 1920—the Esch-Cummings Law—which provided for an immediate increase of railroad rates by the Interstate Commerce Commission to a point which should make the railroad capital of the country yield an average return of from 5½ to 6 per cent. The gain in current revenue from this policy has looked so promising that the railroad companies of the country, with some help from the Government, have been able to borrow the $1,150,000,000 which they had to spend in 1920 and 1921 to make good the grave deficiency in railroad equipment which had resulted from the ill-judged legislation of the decade preceding our entry into the war.

Esch-Cummings Law No Solution

But though the Esch-Cummings Act was of great use in pulling us out of the particular hole in which we found ourselves when the Government returned the railroads to the owners, it was in no sense a solution of the American railroad problem. It left the control of rates in the hands of one board and of wages in another. It purported to assure the railroads a satisfactory return on their stock; but it has failed to do so in actual practice. For if the roads make more than 6 per cent, the law does not leave the companies free to divide the surplus among the stockholders; and if they make less than 6 per cent, it holds out no assurance that the deficiency will be made good. It is in effect a limitation of dividends rather than a guarantee of dividends. There are certain provisions in the bill intended to protect security holders of the weaker roads; but they have not resulted in anything substantial thus far, and it is doubtful whether they ever will. It is not to the Esch-Cummings Law that we can look for permanent relief from the dangers to operating efficiency and public service set forth at the beginning of this article.

In what direction shall we look? Some men say, "In the direction of Government ownership and operation." On purely theoretical grounds there is a good deal to be said in favor of this answer. The traffic department of a railroad, in its dealings with shippers, exercises what is to all intents and purposes a taxing power; and the public has a natural reluctance to leave anything like a taxing power in the hands of officials of a private corporation. Five years ago this argument might have proved decisive. But actual Government operation in the three years from 1917 to 1920 was so unsatisfactory that it would be folly to try the experiment over again, until our Government departments have reached a higher level of business sagacity and freedom from political control, or until the taxes already collected by our Government are more wisely adjusted and more economically spent. And if the Government is not to operate the roads, very little good could come from having it own them.

A second group desires to have railroads controlled as far as possible by the employes themselves. The "Plumb Plan," of which we heard so much three or four years ago, provided for a board of managers composed of representatives of the labor unions, the owners, and the public, which should guarantee a fixed return to railroad capital, and determine annually in its discretion what were proper rates and proper wages for the next year. If at the end of the year there was a surplus, it should be divided between the laborers and the public; if there was a deficit, the public should pay it all. But any such arrangement as that involved in this last clause makes the laborers urge their representatives to fix wages too high for good railroad economy; and to resist such pressure the leaders have to be not only very wise, but also very sure of their power.

The events of 1922 in connection with the shopmen's strike make is clear that the wiser heads among our railroad labor leaders are not so sure of their power as would be desirable for them and for the country. When the Plumb Plan was first proposed, the success of men like Stone and Lee in winning the fight of the brotherhoods against the companies in 1916, had given them great temporary prestige and influence with all classes of railroad labor—outside the brotherhoods as well as inside. This influence they tried to consolidate during the years of Government operation, in the hope that they might build up a loyalty to conservative leaders that would take the place of the men's old loyalty to their several companies. In this they appear to have been unsuccessful. Not only was the "outside" union of shopmen wholly out of hand in 1922, but there were strong indications that the I. W. W. had got control of units of the brotherhoods themselves on a considerable scale. Under conditions like these, the attempt to solve our railroad problems by giving organized labor a large share in railroad control seems even less advisable than a direct resort to Government management.

There is a third way open to us: To treat railroad business as nearly as possible in the same way that we treat other kinds of business.

Rates and Wages Must Move In Unison

If we attempted to regulate banks by two independent commissions, one of which should fix the rates of discount which they could charge the borrowers while the other determined the rates of interest they must pay their depositors, everybody would see that this was a dangerous system; that it threatened the solvency of existing banks, and would frighten away the capital that ought to go into banking business if the credit of the country is to be properly developed. Yet this is precisely what we do in regard to our railroads. The rates they shall charge are determined by the Interstate Commerce Commission; the wages they shall pay, by the Railroad Labor Board.

Every business man knows that rates and wages must move hand in hand. The extent to which a manufacturer can

reduce prices to develop business depends largely upon the scale of wages he has to pay; and conversely, the amount of wages which he can pay depends upon the prices he can charge for his goods. If the prices which he can get are controlled by a board which looks chiefly at the needs of his customers, and the wages which he must pay by a board which looks primarily at the requirements of his laborers, the margin between receipts and expenses gets too small to attract into the business the capital necessary for paying the laborers and producing the goods. This is just what is happening in railroad business today; and the first step out is to put the oversight of both rates and wages into the hands of one board, which can be held responsible for results. With centralized regulation of this kind, we may hope to secure adequate facilities, continuous service, and reasonable rates; without it we are bound to pursue each one by turns, to the neglect or sacrifice of the others, and to make the railroads the less fitted to serve the public the more we try to regulate them.

Such a board can produce results in two ways: by the publicity of its findings, and by the authority which the law may give it to enforce its decisions. How much authority should be given is an open question. It depends somewhat upon the personnel of the board. With a man like Adams as chairman no authority at all was necessary; he put things so clearly that what he said went. He got the public behind him at once. But this was an exceptional case, and it may be taken for granted that any national railroad board today would be given some powers beyond the power to report. The all-important thing is that any authority which the board has should extend equally over the representatives of the stockholders and the representatives of the laborers. Anything in the Clayton Act or in the anti-trust legislation of the United States which allows one group of men or their leaders to do things with impunity which could result in fine or imprisonment for members of another group, must be swept away. Removal of such special legislation from the statute book is not only necessary to enable the board to protect the public it should also, in the long run, help the conservative men among the laborers themselves. For any law which exempts one class of men from penalties for its violation, encourages the more reckless members of that class to take advantage of this immunity, to the detriment of public convenience and often of public order.

Kind of Regulatory Body Needed

To work effectively, a railroad board of the kind proposed would have to be radically different in its character, its outlook, and its training from what the Interstate Commerce Commission now is. This is not intended as a criticism of the members of the commission, who are a remarkably high-minded, hard-working, and patriotic body of public officials. It is simply a recognition of the fact that the things which most need to be done today to restore our railroads to the condition of efficiency which they enjoyed 15 years ago are those which the Interstate Commerce Commission has not done, and which most of its members have no tbeen trained to do. From the very beginning, the commission has been overworked. It has had two sets of duties imposed upon it. the general duty of informing itself as to the manner in which railroad business is conducted, and of making reports and recommendations to Congress on matters which it considered important; and the special duty of investigating complaints against the carriers and assisting the complainants to obtain redress when their claims were well founded. The number and pressure of such complaints has been so great that the commission is given scant time for the fulfilment of its broader obligations towards Congress and the public; particularly as few of its members have had practical experience of the difficulties and perils of railroad management.

A group of men who are largely occupied in looking at rate questions ex parte from the standpoint of individuals, and who have not as a rule had previous training in railroad administration or economics, is obviously not fitted to deal with a situation like that which confronts us. As an adjunct to our commerce courts it can continue to do great service. But to supervise our railroad policy as a whole, we need a body of quite another stamp. To prevent the public interest from being sacrificed to the immediate demands of groups of shippers or laborers or bankers, we must have a body of men with exceptional previous knowledge and understanding of railroad business in its various aspects; men who can see the public duties and needs and dangers of our railroad system as a whole in the same clear light in which the Federal Reserve Board has seen the public duties and needs and dangers of our banking system. We should give railroad managers the same chance that we give managers in every other line of business which has large and complex public obligations—the chance of dealing with officials who before their appointment have had either actual experience in the conduct of the business or special knowledge of the circumstances under which it is conducted. Thus and thus only can we maintain the efficiency and solvency of our transportation system on the same high level as the efficiency and solvency of our credit system.

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Less Federal Regulation Is Great Need of Railways

By A. H. SMITH,
President, New York Central Lines

We cannot hope to be wholly free at any time from a discussion of rates and wages. Fluctuations in business tend to ease one and aggravate the other, or vice versa. A contented, orderly, busy state of the country, free from agitation for political or constitutional changes, should perhaps result in a more even tenor of the conduct of each constituent industry in the country and perhaps best promote the individual prosperity and happiness of all its citizens. If such sentiments pervade the minds of a large number of people in the country this ought to be a good year, accompanied by an improvement in the conditions of railway properties and in the efficiency of their service to the public.

It is probable that the physical condition of the railroads was never ideal; it is probable that it has been unsatisfactory during recent years; but this has been realized by most, if not all, of the railroad managements and such steps as their means offered and as the state of the country permitted have been actively pursued to retrieve the fact. With a fair show it should not take the railroads any longer to get back to normal than any other industry in the country.

Laws Act as Harness

Of course it must be realized that laws and regulations applicable to the railroad business are now virtually a harness, whether it was the intention or not, so that there is not the scope, as regards available means and resources, to the railroad managements, anything like that which pertains and is available, perhaps, to those forms of industry in the country which have more freedom of action and whose business is still responsive to its own autonomous control.

I would not like to convey the idea that laws and regulations should not apply, but it is one thing that these should be a guide or boundary and quite another thing when they become a harness.

As to the probable amount of new financing needed by the railroads in 1923, it is very hard to estimate because financing arises from several necessities; for instance, there is refunding. I have no information available as to the amount of refunding that the railroads must confront during the year. Then there is the financing due to additions to road and equipment, which in turn is governed by business, by the cost of such improvements and by the cost of the necessary funds to do it. At the present time the business outlook seems to bid fair to continue, for a while at least, the activity which we witnessed for the past few months. With these factors all in mind it would seem that a substantial amount of new financing might be necessary, but that untoward circumstances either in condition of credit or business, or perhaps legislation, would undoubtedly cause it to shrink.

Seasons of Car Shortages

An acute car shortage is likely to develop any time when under conditions of business activity all the shippers want to forward freight at once. If you have a coal strike that retards the accumulation of the winter's supply of coal at points of consumption and this strike continues until the face of winter there is no method known by which a "car shortage" can be avoided on the resumption of mine operations. The country could hardly afford to have railroad facilities and equipment enough so that all the coal required for a winter's supply could be loaded and shipped in a month.

Again, there are times when fruit crops are desired to be shipped in such short space of time that it seems almost impracticable to get together enough refrigerator cars to satisfy the demand. These seasonal demands are factors that ought carefully to be weighed in connection with all views that are advanced with reference to the solution of the so-called "car service" problem of the country. Take, for instance, the fruit growing industry. More and more the producers have sensed the matter and have organized and built warehouse facilities so that the forwarding of the crop can be spread over such a period of time as to achieve primarily a more advantageous marketing of the crop and secondarily, of course, a more advantageous and reasonable use of the transportation facilities. It would seem to follow logically that a reasonable and continued use of transportation facilities rather than a "feast and famine" method of using them will result in improved service and reduced cost.

However, the fundamental problem of the car shortage is the question of who will provide the cars and after they are provided who will get the use of them. There is no incentive to a rail-

road to provide cars which are to be put in a pool and distributed from Washington or other central points. So remote authority, with such wide responsibility, cannot help but be behind the fact of necessity which at any time may confront a shipper and a carrier on the spot. Any idea that car supply can be dealt with better from the Capital at Washington than it can be from the immediate neighborhood by a responsible railway management which not only has its plain duty to provide the car, but also has a right, mutually with the shipper, in and to the use of the car after it is provided, is erroneous.

The public are badly deceived as to the car question owing perhaps to the indiscriminate use of the word "car." Freight cars are not all eligible for unrestricted indiscriminate use by any means and it would revolutionize the economics of the country if they were undertaken to be so used. For very good reasons the equipment requirements differ in substantial degree in various parts of the country, particularly with classes of lading which cannot be satisfactorily handled and protected in shipment by an interchangeable standard car.

These things are all known as a part of the railroad business, just as the characteristics of various fonts of type are known in a newspaper office. The word "type," however, may have a meaning to the public, whatever it is, just as the word "car" may have a meaning to the public, whatever it is; but when you start to set up type you have to know the details; that is, the sub-division into classes and the use of the various classes, and what is feasible in their manipulation so as to make a result that means or achieves something.

There can never be an adequate car supply for the benefit of the country as a whole until the sum of the parts are not deficient in themselves, and I know of no way whereby this deficiency in parts can be remedied except by pointing out to each part in principle what its equipment ownership should be. When this is done I believe the railroads will have a mark set to which they will conform. When this is a fact there will be little difficulty, under the interchange rules which we now have or substantially so, in rendering greatly improved service both in character and volume throughout the country. What has been done in the matter of car service has been done in spite of the lack of a consistent measure of duty for each carrier whereby each was placed on the same plane manifested in the organization of the equipment ownership.

Consolidations may or may not be advisable. It depends upon the cases. Generally it would seem consolidations that follow rational developments hitherto and perhaps accord with existing physical facts are preferable to empirical groupings of lines. The advantages to roads from consolidation are direct functions of the facts as to what properties are consolidated and the art manifested in the oragnization of the consolidated property.

In the interest of the users of the railroads it is most desirable that they shall be free from additional legislation and other interferences. What they need is co-operation, both from the branches of Government that have to do with them and from the public, as well as among themselves. There is need also, as has been pointed out, of fixing a consistent measure of duty for each carrier with respect to its equipment ownership obligation.

It is likewise important that the labor situation be treated locally on its own merits. Attempts at unification have been unsatisfactory to all concerned. Such a viewpoint is likely to make each question a national one and perhaps ultimately a national menace. There are geographical, industrial and even racial conditions which differentiate these problems and because of which attempts at standardization (or unification) are not for the welfare of the country.

Economy and Better Service Seen in Railway Grouping

By HALE HOLDEN

President, Chicago, Burlington & Quincy Railroad

The Transportation act of 1920 became effective on March 1, 1920, coincident with the end of Federal control of the railroads. It established a new transportation policy by introducing a number of provisions in the law calculated to insure adequate railroad service; among these is the group idea—the grouping of railroads for the purpose of consolidation "into a limited number of systems." The commission was required "as soon as practicable" to prepare and adopt a plan under which "competition shall be preserved as fully possible and wherever practicable the existing routes and channels of trade and commerce shall be maintained."

Numerous other important provisions such as those relating to the recapture of excess earnings and means for aid, financial and otherwise, to so-called weak lines and others of like general import were enacted. The entire scheme seems to have been based upon a program of bringing about average conditions in the transportation situation. In administering this new policy of making rates, the commission has placed the railroads of the country in several large groups, and in doing this has established a body of rates calculated, in its judgment, to enable the average roads in each group to earn the specified rate of return upon the value of the property used in the public service. Rates could not be made to enable the weak roads in any particular group to earn that return without at the same time enabling the strong and well established roads to earn more; in establishing an average basis the recapture provisions of the law were expected to take excess earnings from strong roads and other provisions of the law above referred to provided means to supplement the meager earnings of roads less favorably situated. The provisions of this new law went further, however, and by the plan to consolidate into a limited number of systems, larger systems inevitably follow.

Group System of Rate Making

It is evident that a group system of rate making involves today the application of it to railroads widely divergent in type as to traffic and operation, and equally divergent as to credit and financial strength. For this reason, without the complementary establishment of average systems, the rate regulating body cannot forecast with any degree of precision the probable results of the rate structure which the law has required it to establish in group form. On the other hand with systems of average type and having reasonably like conditions each to the other, a distinct element of accuracy and calculation of results is afforded and the establishment of group rates calculated to earn approximately the required rate of return is relieved of uncertainty and becomes the exercise of intelligent action. If each system, as the commission may determine it in the final plan for consolidations, should therefore present reasonably average conditions, these conditions would appear to mean that each system should have broadly the same diversity of traffic, well balanced by territorial distribution, climatic and crop conditions, comparable routes and channels of trade and commerce, not only between large centres of industrial activity, but also between producing and consuming areas, whereby adequate competitive service will be safeguarded to the public.

Congress began the investigation of modern railroad conditions in 1916, pursuant to a message by President Wilson on Dec. 7, 1915, in which he said in part:

Wilson's View of Situation

"The transportation problem is an exceedingly serious and pressing one in this country. There has from time to time of late been reason to fear that our railroads would not much longer be able to cope with it successfully, as at present equipped and co-ordinated. I suggest that it would be wise to provide for a commission of inquiry to ascertain by a thorough canvass of the whole question whether our laws as at present framed and administered are as serviceable as they might be in the solution of the problem. It is obviously a problem that lies at the very foundation of our efficiency as a people. Such an inquiry ought to draw out every circumstance and opinion worth considering and we need to know all sides of the matter if we mean to do anything in the field of federal legislation," and again;

"The question is not what should we undo? It is, whether there is anything else we can do that would supply us with effective means, in the very process of regulation, for bettering the conditions under which the railroads are operated and for making them more useful servants of the country as a

whole. It seems to me that it might be the part of wisdom therefore, before further legislation in this field is attempted, to look at the whole problem of co-ordination and efficiency in the light of a fresh assessment of circumstance and opinion, as a guide to dealing with the several parts of it."

War and Transportation

This message was doubtless in part influenced by the approaching complications of the World War, which were then beginning to make heavy demands upon the American transportation system and which, whether this country became directly involved in it or not, promised for some years to cause a disturbance in economic conditions which would tax the stability and credit of American railroads, as well as all other forms of American industrial activity. For the first time the suggestion was made from an authoritative source for an inquiry into methods of operation for purpose of "co-ordination and efficiency." In 1916 and 1917 extended investigations by Congress were held, interrupted by Federal control of the roads, but again resumed in the development of a basis under which private operation was to be resumed in response to the overwhelming demand of the country. The Transportation Act of 1920 was the result of extended hearings which began in 1919, out of which came a new constructive policy which recognized that if private operation was to continue to meet the growing demands of the country, an established rule of rate making calculated to enable the railroads under honest, efficient and economical management to earn a fair return, was needed, and that the old policy of wasteful competition should be modified and, under public scrutiny and approval, the restrictive limitations found by the courts in the Sherman Anti-Trust Act of 1890, and in statutes of like character in many of the states, should be relaxed.

Tendency Toward Larger Systems

From the early days of railroad development in this country there had been a steady movement toward larger systems, promoted by the development of the country, the wider distribution of commodities and the constant progress of the science of railroading. While some of these combinations were unsound and promoted from selfish financial motives of individuals and failed in consequence, with heavy loss to many innocent people and with harmful results to the territory dependent upon them for efficient service, there are today in all parts of the country fine and developed systems of extended mileage which are only accounted for by the experienced and painstaking efforts of sound minded and public spirited railroad managers who had grasped the opportunities to keep the American railroad system abreast of the miraculous growth of the country. This process of developing larger systems began with practical effect in the middle of the last century when, for illustration, 16 companies operating short lines between New York and Buffalo were consolidated into the New York Central and Hudson River Railroad Co. Many other like developments in Eastern territory began at that time, particularly in order to bring about standardization of equipment and track gauge so that through routes could be developed without transshipment of lading or change of cars by passengers. This process steadily continued until by the year 1910 a number of systems under common control and management approximating 10,000 miles of line had been created. Decisions of the courts under the Sherman Anti-Trust Act in several notable cases then substantially brought this movement to an end. The scope of these decisions left much uncertainty as to the degree of competition which fell within the prohibition of this law and this condition, added to the growing results of hostile and repressive public regulation offered for the time being little encouragement for further railroad expansion.

The railroads of the country entered the strain of the war with restricted revennes and retarded development resulting from the refusal of public authorities to recognize their rational needs, but with courage and confidence in their ability to mect the demands upon them. As soon as they were freed from the harassing pressure of conflitching demands for preference and priority from the different branches of the Government during the war and the limitations of peace time laws which were soon found to have no place in war time effort, they handled the war needs of the Government and the commerce of the country with signal success. The process of untangling the railroads from the grasp of the Government compelled public authorities to recognize and deal with the long delayed demands of the railroad industry for fair treatment, and as a result of the hearings which began in 1919, the Transportation Act of 1920 was enacted.

Public Takes Notice

Step by step the new provisions contained in this law are coming to the attention of the country through practical application, and the broad scope of this new scheme of regulation is becoming through such events as the recent decision of the Supreme Court of United States in the so-called New England Divisions case and through the hearings which the Interstate Commerce Commission is conducting under the consolidation provisions of the law. It is evident, however, that the consolidation provisions of the law were enacted without much, if any, general public consideration of the plan, nor the results to follow, and that now that the

subject is under active consideration the public in some portions of the country at least has begun to take an active and critical interest.

Some communities and some people see much to be gained in those parts of the program which are near at hand to them. This evidence of approval is broadly based upon the belief that the plan, as they see it, will improve service and further develop trade opportunities. Other communities and other people hold quite opposite views as to the plans, as they see the effect upon them, doubting substantial improvement in service and fearing loss in commercial opportunity. From some quarters objection is raised because of the belief that competition will be restricted and the service suffer accordingly, or that consolidation of local facilities will lessen public convenience and reduce local railroad expenditures. There are some who profess to be startled by this sudden reversal of national policy which now promotes and invites consolidations, when only a few years ago they rigidly opposed and in many cases prevented and ordered undone by action in the courts. Inquiries are being heard to know how this policy came about and who is responsible for it? The situation is without doubt laboring under considerable confusion of thinikng and this has resulted in part from the fact that the commission has entered upon these hearings by plunging into the practical details without having first established through inquiry and hearings an understanding of the meaning of the provisions of the law and the principles which should guide the development of the final plan which the law requires it to announce. In Western territory as doubtless elsewhere, there are fundamental conditions which require study along broad lines to find the principles which should guide the judgment to the best result. The growing influence of competition through the Panama Canal indicates future conditions which are not yet clearly seen, but which obviously bear with important effect upon Western railroad systems. There are important Western gateways of traffic developed from early days when Western rail ends met Western river transportation and overland wagon routes. These conditions created great Western jobbing centres and interchange points between connecting railroads. Natural anxiety at such points has been aroused over the possible effect upon established conditions of this character from these proposed consolidations.

Economy and Better Service

In these aspects of the inquiry it is evident that a good deal of study and discussion remains before sound public opinion is developed, but there is evidence that opinion is developing that the railroads should now be permitted to resume the process of further consolidation, insofar as that will be productive of economy and better public service. In practically all forms of American industry the tendency continues toward larger operations as the country grows and the demand increases for wide spread distribution of commodities. Railroads should therefore be permitted to develop along similar lines by resuming, now under public approval, where the enterprise and initiative of railroad managers of the last generation left the situation.

The Transportation Act does not make consolidations compulsory, but leaves action, under the plan of the commission, to the voluntary acceptance of the railroads. It is doubtful whether consolidations can be forced against the will of stockholders if they find features of the plan which appear adversely to affect their interests. Much difficulty will develop in agreeing upon price and terms between the only purchaser permitted to buy and the seller who has only one customer, but as consolidations had been steadily progressing until stopped by the law, it may be assumed that Congress expected that the opportunity thus afforded to resume the process would be welcome and that the plan which the commission is required to adopt would be in substantial accord with natural conditions and therefore, in the main, acceptable not only to the commercial interests of the country, but also to the legitimate aims and ambitions of the railroad companies.

It may be predicted that unless these expectations are substantially realized by the commission, this ambitious program will fail. This is not unnatural, because it is the prime duty of officers and directors who are acting as trustees for stockholders, to so administer properties in their charge as to safeguard and develop them, rather than to embark them upon doubtful or speculative ventures which may produce loss and disaster. In most cases the sound and well established railroad systems in the country have been steadily progressing along carefully thought out plans for improvement and enlargement, and the very fact that such systems are successful and efficient public servants proves the care with which they have been planned and administered. Instead of allowing these well established systems to not only now finally consolidate their constituent companies, but also to make such further additions by purchase or otherwise as they may think advisable in the line of their normal development, bringing further plans to the Interstate Commerce Commission for scrutiny and approval, the Transportation Act has proposed the anomalous procedure of confiding the future destiny of each road to the judgment of the Interstate Commerce Commission; although acceptance of this plan is voluntary, the law has thrown an indirect pressure upon the railroads to accept the plan by forbidding con-

solidations or extensions that are not in keeping with the plan.

In the tentative plan which has been put forth for discussion, there are to be found some proposals as to some lines that are obviously in keeping with normal development, and which in due time those companies will avail themselves of; there are also found features in which roads concerned are mildly interested and perhaps which in time they may adopt, but in other important features there are groups proposed that are not only opposed to natural lines of development, but disrupt long standing relationships and threaten to seriously change established routes of trade and commerce. In such cases as those last mentioned, there is little reason to expect voluntary action; on the contrary natural salf interest to protect and safeguard established investments will compel opposition. Situations of this character do not promote railroad development and it is to be assumed that the Interstate Commerce Commission will proceed with caution in dealing with sensitive conditions of this kind. It may be asserted that unless the final plan which it adopts is not only in the main satisfactory to the commercial interests of the country, but also protective to the vast investments in railroad securities, the plan will not be accepted.

The policy is, however, in the right direction and if this legislation fails to produce the results anticipated, more rapid progress will likely be made by amending the law in such way as to permit the railroads themselves to develop their plans for further consolidations and bring them from time to time before the commission for approval.

By some, the advantages to follow from consolidations are over estimated and will be looked for before results can be substantially realized. Some of these people were abroad in the land during the period of Federal control. Many of the combinations and unifications of facilities and service during that period were valuable for the war purposes of the Government, when competition was suspended and the public was not only called upon, but was quite ready in the patriotic effort of the times to sacrifice peace time conveniences. Where the tracks of different companies are parallel through a stretch of territory, the question was frequently asked during Federal control by uninformed patriots why one should not be abandoned or both thrown together for double track operation. In some cases this was done because found to be practicable under the unified scheme of operation then in effect, but in many other cases practical study and analysis proved either that no advantage would be gained or that heavy capital expenditures were first needed. Where two railroads yards were adjacent to each other, it was sometimes suggested that greater capacity would be available by operating them as one, but practical railroad men know in the first place that there are several types of yards, each type carefully designed for particular purposes and in the next place to combine operations of two yards into one, a large amount of rearrangement of trackage and facilities, like coal chutes, water tanks, ash pits, turntables, etc., must necessarily first be made.

Operating Advantages

For reasons of this character, the practical operating advantages from consolidations will, in many details, be only worked out by gradual process and will involve considerable expenditures of money.

There are also some people, both in railroad life and outside, who see nothing of value to be gained. These people have reluctant or closed minds and generally express themselves by saying that they want conditions to be let alone. Some of them say that railroad systems have already become either too large, or are large enough for efficient management. Probably there were people of the same kind years ago when systems having 1,000 miles or later 5,000 miles, were developed and who then saw things at their maximum possible size. For some years there have been statements made by some, but on what authority it is not clear, that a system of 10,000 miles of line is as large as any one management can ever handle. These opinions seem to rest wholly upon geographical extent which in these days of telegraph and telephone is not of particular importance. Density of traffic, quantity of equipment and number of employes are probably of greater importance. As soon as we find out what we want, the energy and efficiency of railroad management will find a way to administer and operate these new systems. Insofar as the experience of the past is a guide, and future conditions which larger systems would present can be seen, it is unlikely that consolidations of the character contemplated by this law will at least for some years produce sufficient economy in operation to justify reductions in rates and fares.

Savings by Consolidations

Some saving by reduction in accounting expense, interchange and inspection work and methods of handling and repairing equipment will soon develop and some saving in overhead cost. Other moderate savings of like general character will be accomplished, but the steady increase in the demands of public regulation and in the constant effort to please the public by improving the service, have been requiring more supervision, rather than less, and no great savings in cost of supervision, which in proportion to the total expense is relatively unimportant, will be realized. Interest charges on new money needed in the process of reconstructing facilities in the process of consolidation, will offset a good deal of the saving otherwise attained, and the net result for some years at least would not indicate much saving in operating expenses

The substantial gains from these consolidations will be realized more by the public through better service, better handling of equipment, less delay in transit, gradual improvement of weaker lines now requiring further development, and more uniform policies of management.

There is no reason to fear that any commercial or shipping interest will lose any present advantages in adjustment of rates or service, but on the contrary past experience justifies the prediction that if these consolidations can be worked out along normal and rational lines, public service willl steadily improve and under fair regulation of rates and revenues, the credit of the railroads will be strengthened and the American transportation system will resume the development necessary to serve the growing needs of the country.

Attacks on Roads Menace Whole Business Structure

By ELISHA LEE,

Vice President, Eastern Region, Pennsylvania Railroad System

We are approaching a very important period in the affairs of American railroads. That means in the affairs of the country as a whole. What takes place in the Congress which assembles next fall—what is omitted as well as what is done—will certainly play a very large part in shaping our transportation policies for a long time ahead. The issues are of overwhelming importance, and it is in the highest degree essential that sanity and wisdom shall guide the outcome.

Any survey we can make of the situation shows both agriculture and labor for the time being in unsafe hands politically, and makes it clear that a united stand by our business men and their organizations is the only effective force at present available to save our transportation policies from receiving their final shaping largely at the hands of men whose words and actions proclaim their radical aims.

A campaign of conscious misrepresentation and unfair attack is being conducted against the railroads for political effect and ends. The purpose behind it all is to precipitate Government ownership of the railroads as a first step toward destroying our representative form of Government and plunging us into socialism.

We must be prepared to see this movement, with its accompanying attacks, take more definite and menacing shape in the next Congress. The danger will not lie in any appeal that can be made to intelligence or sincerity, but rather in the possibility that advantage might be taken of the known weaknesses of our political system to bring about a stampede, through fear and hysteria, into some ill-considered and bitterly to be regretted action.

Under these conditions the duty of steering the country clear of disaster devolves largely upon the nation's business men, because to them, for the time being at least, has been handed the chief trusteeship of uor national sanity and common sense.

Business in general has common sense with the railroads against the radical forces of destruction. Conditions have made the railroads the first target of radicalism, but if that assault is successful, be assured they will not be the last. Confiscation of the railroads is merely a first step, to be followed by like action with respect to the basic industries, in reaching the true goal of radicalism, which is the social revolution.

What is the railroad problem? It is an immensely complicated thing. It affects every individual in the nation. It involves great moral issues, such, for instance, as the question whether or not, as a nation, we will respect the property and savings of individual citizens. In the broadest sense, we may define it as the problem of providing adequately for the immensely increased volume of transportation service which our country absolutely must have if its progress is to continue.

With all the great increments to the means of transport and travel, and enormous increases in the volume of service actually performed, it is common knowledge that we have encountered a nation-wide shortage of transportation every time in recent yeras that our commerce has become active and prosperous.

What the growth in our transportation requirements will be in the next 10 or 20 years it would be hazardous to guess. Perhaps the only safe state-

ment to make is that they will in all likelihood greatly exceed any estimate which would today seem reasonable in view of our existing knowledge.

The chief need is to pave the way for a general and progressive expansion of the capacity of our railroad machine, so that it cannot only handle the traffic which is pressing for movement today, but constantly keep a reserve capacity ahead to make room for the country's growth and advancement. That was the condition in the past years when the railroads were the chief factor in our country's advancement, furnishing it the most stimulating and progressive leadership ever known, until that leadership was destroyed by overregulation. We must find means for attracting a large volume and free flow of new capital into railroad extensions and improvements. That can only be made possible by allowing the railroads again to prosper and earn real profits, which are the sole and only sound basis of credit.

In this connection I should like to refer to the question of the return earned upon the investment in the railroads, as a whole. Not once in the last 15 yeras has it reached 6 per cent. The highest was 5.9 per cent, in 1916, and it fell as low as eight-tenths of 1 per cent in 1920. At present Federal regulation is proceeding on the theory that a return of 5¾ per cent is enough to put new life into our railroads.

Business men must realize that the cheapest transportation is that which will do its share of our big economic job right, and that the dearest transportation, regardless of the question how low rates or fares may be fixed, is that which does not do the job right.

By saving at the spigot the public may cut off some millions of dollars a year in railroad charges, but at the bunghole they will waste billions in lost production, trade, employment and profits.

Business Must Demand Voice on Laws

Business men must demand a voice, and I think they have a right even to demand a measurably controlling voice, in the making of the railway laws of the future. They should insist upon the repeal of the present unduly restrictive laws which prevent management from performing its proper functions. Unless they are ready to adopt some such program as this, they must be prepared to see the railroads scrapped preparatory to Government ownership, and service and rate-making manipulated primarily with the purpose of procuring votes.

A cardinal principle for the people of this country to take hold upon with the surest grip should be to keep economic questions out of politics. Government ownership of the railroads would project the biggest of our economic problems straight into the middle of politics, there to stay as a corrupting, disintegrating and hampering influence, indefinitely. Every shred of past experience tells us that our Government can make nothing but a failure of the attempt to carry on a business enterprise.

Few things would more genuinely try is strongly opposed to Government ownership. If that sentiment could in some way be expressed definitely and in unmistakable form, so as to settle the country's policy decisively, and take political operation out of the picture, I am sure it would do more than anything else that could be imagined toward bringing railroad employes into normal attitude and relationship with their work again.

*From address before the Traffic Club of New England, Boston.

'Closed Season' for Growth Needed by Roads, Says Expert

By W. A. SCHUMACHER

General Traffic Manager, Fruit Dispatch Co.

Anything that is "game," be it fish, flesh or fowl, has an open and a closed season, but for the railroads the season is always "open"—not that they come in the category of living things, but nevertheless they are objects of the popular sport of shooting at something.

If a hit is scored, that is so much good work done and the game goes merrily on.

I believe it is generally accepted as a truism that when our railroads are not prosperous the country is not prosperous. And how could it be otherwise, when we stop to consider that transportation is the second largest industry in this country and our health, happiness and prosperity are inextricably bound up in the efficient, adequate and smooth working of our national transportation machine? The railroads are among the largest purchasers of commodities of every description as well as large employers of labor, and their total expenditures for labor and supplies are responsible for payrolls totalling many millions of dollars, all in turn creating vast purchasing power available for other commodities necessary to the wellbeing and happiness of an army of employes and their dependents.

If the railroads cannot earn enough to have a surplus after fixed expenses and operating costs have been satisfied they cannot buy new equipment, engines and rails, enlarge facilities or create new ones; they begin to have "growing pains"—their plant becomes clogged and there is a tightness around the waistband that the shipper sees translated into car shortages, congestion, embargoes, permit systems and all the other symptoms of a transportation machine too small and inadequate to handle the business tendered and yet starving to "bring home the bacon."

So what's the use of talking about

Rates vs. Service

lower rates if the railroads cannot move the business already offered? What good is a lower rate if a shipper cannot get a car, or the railroads cannot move the car and deliver it at destination expeditiously? What we shippers want is SERVICE, and we want it when we want it—cars, schedules, yards, delivery tracks, 'n' everything. And we are not going to get them without paying for them. Transportation does not differ from any other business enterprise. The rewards (efficient transportation or otherwise) are in proportion to what we put into it—we cannot draw out more from the bank than we deposit, and we cannot get something for nothing.

As a matter of fact, how many of us really care what the rate is? How many of us know whether it is five cents too high or five cents too low? Isn't a relative adjustment the thing we are after and really need? Would you sell more or less fruit or vegetables on a lower rate if your relative adjustments were wrong, and in comparison with competitors you ware still too high? No; you would still be "out of luck," and your entire operation would be hampered until you could secure a proper relative adjustment. Then, no matter if your rate had been reduced or advanced you could command your rightful share of the business, because you would be on an even footing relatively with your competitors.

In company with many others, I think rates are too high, and in the course of time must come down, but I doubt if now is the time to hamstring the railroads. We need more cars, more engines, more sidings and yards, more everything. Railroad development has not kept pace with the growth of business and population in this country, and the reason isn't hard to find. They are over-regulated and under-nourished. Every time they get a tummy-ache or a little derangement of the alimentary tract someone rushes for the paregoric bottle in the shape of a new bill designed to correct this or that practice or to compel some new one.

Position of Executives

I don't think railroad management is perfect, and there have been times when I thought it was puerile, but the great majority of executives are, I be-Interstate Commerce Commission such suggestions are manifestly in the interest of transportation as a whole.

Helpful in Consolidations

The Service Corporation would be helpful in the consolidations of railroads. Many of the purposes and economies sought by the large consolidations under the Transportation Act would be attained through the joint use of facilities through the Service Corporation. without the contraction of railroad service, development and incentive that would result from too great concentration of facilities through possible illogical consolidations instead of their expansion by joint use.

The act incorporating the Service Corporation may provide for a report to the commission by the trustees of the Service Corporation respecting consolidations. No more experienced agency could be selected, composed jointly of presidents of railroads of the four groups operating in every section of the country, and of representatives of the largest permanent public investors in railroad securities which are necessarily affected by any plan of consolidations. Permissive consolidations of railroads with the approval of the commission in each case should be made possible rather than compel arbitrary adherence to any specific plan to be adopted by the commission as now provided by the Transportation Act. In addition to requiring that consolidations shall hereafter adhere to the announced plans of the commission, the act instructs the commission to establish territories between which the traffic earnings will be substantially alike and in which the large consolidations are to be made; this is entirely impracticable. lieve, striving earnestly to give the public efficient, adequate and prompt transportation with such tools as an indulgent Interstate Commerce Commission, 48 state regulatory bodies, the Labor Board, labor leaders, et al, will permit them to have. No wonder they begin to hedge when shippers start making proposals. Experience has taught them to be on their guard, to look for the bug under the chip. What we need, both shippers and railroads, is a liberal dose of old-fashioned faith. I am a firm believer in laying the cards down on the table and talking frankly. If both parties will do that, most situations can be ironed out to the satisfaction of all. Here is a good motto to follow, and it doesn't apply exclusively to the transportation field, either:—First ascertain the facts; the remedy is usually self-evident.

It is unnecessary for me to quote figures of railroad earnings—you are all more or less familiar with the fact that they have been, as a whole, far below what was necessary to enable the railroads to enlarge and extend their facilities so as to keep pace with the development of American industry, and we are now paying the penalty. I suggest a closed season for a time. Give the railroads a chance to catch up with the procession. An adequate car supply, prompt and safe movement and a transportation plant capable of handling a peak movement of any commodity at any time with reasonable despatch is worth more to shippers than any number of cut-rate tariffs that are only "paper" rates because the frantic shipper can get no service.

Wants Fair Reductions

When the time comes that substantial reductions in rates may be made, I hope to see no more horizontal reductions. Commodities that can bear a relatively high rate should be the last to be picked out for reductions. The heavy moving basic commodities should come first and care should be taken to readjust each class or group in all territories at the same time so that relative adjustments may be preserved.

In order to show in a few words where most of the trouble lies I give below the average yearly increase in engines and cars in periods of seven years each:

	1901-1907	1908-1914	1915-1921
Engines	2,500	1,500	275
Cars	90,000	50,000	6,000

Read the figures and weep! And don't forget that during all this time business has been increasing tremendously. It is time for business men to look at this situation in its larger aspects and try to help the railroads to get back on their feet. Don't be afraid they will make too much money. The Interstate Commerce Commission will take care of that, but in the meantime you want efficient and adequate transportation when you want it and, whether you know it or not, what you really need is a relative adjustment of rates. The measure of the rate is not half so important as it seems.

Let's call for a closed season and start to do a little boosting.

Enormous Financial Needs Of Roads Surveyed by Expert

By JULIUS H. PARMELEE,
Director, Bureau of Railway Economics

Few people realize the extent of the financing that must be carried on by the railways of the United States each year, to enable them to keep pace with the growth of population and industrial development of the country.

In 1922, for example, the railways borrowed nearly $500,000,000 of new capital, issuing their bonds and notes therefor. During the three years 1920, 1921 and 1922, their borrowings amounted to an aggregate of nearly $1,200,000,000. This was in addition to refunding issues of railway capital, those designed to replace obligations as they mature and fall due.

Even if no new capital were raised for the next 50 years, to provide new railway plant or additions to plant, the railways would still be in the market every year for large amounts for refunding operations. While these amounts vary from year to year according to the nature and amounts of maturing obligations, the annual average runs above $200,000,000, and this amount must be turned over each year in refunding operations before a single dollar can be raised for new capital. It is true that refunding operations are not a net drain on the investment fund of the country, because what is borrowed from the purchasers of the newly issued bonds is paid over to the holders of the old or maturing bonds. So far as the general money market is concerned, the process is merely a shifting of investments. But the fact that refunding transactions are going on in the market undoubtedly influences the investment situation and reacts to some extent on the credit of the railways.

To the railway managements the process of refunding a particular issue of bonds may mean as much work and worry as if an entirely new issue of securities were being financed. The more than $200,000,000 of railway obligations maturing each year must be refinanced in some way, either by the issue of new securities in exchange, or by the sale of new securities to secure funds with which to retire the maturing obligations, or by some other means.

Even excluding refunding transactions, the railway industry is probably more consistently in the market for new capital, and for larger amounts, than any other single industry in the United States. This fact is much less recognized than its importance to the financial and investing interests of the country warrants.

Improvement Programs

According to a recent report of the American Railway Association, the railways have under way this year improvement programs that will call for a total expenditure approximating $1,100,000,000.

Capital improvements may be roughly classified into two principal groups, expenditure for new equipment, including locomotives and cars, and expenditure for other improvements, mainly trackage and other facilities. Of the total amount represented by the 1923 railway program, $675,000,000, or slightly more than 60 per cent, is designated for new equipment and $425,000,000, or about 40 per cent, for other improvements.

The relationship between these two classes of improvements is important, for the two classes to a considerable degree represent different methods of railway financing. Speaking broadly, the railways find it easier to finance new equipment than other improvements. The basis for the financing of new equipment is usually the equipment trust obligation, under the terms of which a railway purchasing locomotives or cars makes a cash payment of from 15 to 25 per cent, and gives a series of notes for the balance of the purchase price, maturing serially every year for from 10 to 15 years. The security underlying these notes is the equipment itself, and as the notes are paid off the equity for the remaining notes becomes constantly greater. This method is virtually a system of deferred payments, based upon a first mortgage on the equipment involved.

To secure capital for improvements other than new equipment, the railways must turn largely to mortgage bonds. As general property liens gradually enter the class of closed mortgages, the only recourse is to junior liens, collateral trust bonds, or to income bonds.

Problems of Financing

In addition, the railways reinvest some of their net earnings each year in their properties. This policy, long recognized as sound and conservative policy, has the triple advantage of increasing the equity of the real owners of the railways—their stockholders—in their properties, of strengthening railway credit, and of obviating the necessity of financing an amount equal to the funds appropriated out of net earnings. But the amounts so appropriated by the railways each year are comparatively small, because of the narrow margin between their revenues on the one hand and their expenses, taxes, and fixed charges on the other hand. In recent years less than 5 per cent of the additions to railway property has been paid for out of net earnings; the remainder had to be financed in the open market.

One source of new railway capital has not yet been mentioned—the sale of capital stock. So infrequent have issues of new railway stock become in recent years that that method of railway financing is rarely taken into account in current discussions of the subject. It is reported that during the years 1919 to 1922 less than $27,000,000 of new issues of capital stock were sold by the railway industry as a whole.

That this is a deplorable condition has been repeatedly emphasized. As long ago as 1910, the Railroad Securities Commission pointed out the danger of a continual decrease in the proportion of railway stock to their total capital. Yet the situation has grown worse since that report was made. Between 1910 and 1921 the ratio fell from 45.1 per cent to 43.9 per cent, and will continue to decline unless some of the railway companies find it possible again to place their stocks on the market.

The advantages of financing through

the issue and sale of stock rather than bonds are so many and so obvious that they need not be detailed here. The issue of stock enlarges the group of active railway owners, replaces a fixed interest charge with a dividend charge that is paid only when earned, supplies a wider margin for the creditors of the railways, and is in every way preferable to the issue of bonds or other obligations.

What the railways now need is a clearer public realization of the importance of maintaining railway credit as a basis for enlarging the amount of outstanding stock. Railway credit can only be maintained and strengthened by permitting the railways to earn at least a "fair rate of return" as defined in the Transportation Act.

It is sometimes asked why railways are constantly going into the market for new capital. Some observers find it difficult to understand why an industry already representing an investment of more than twenty billion dollars should be seeking every year to increase that investment.

In considering this question, we may consider first, the increased physical needs of the railways, and second, the fact that monetary values have changed greatly in the last few years.

Mileage Figures

In the first place the railway system is a larger plant than it was ten years ago, or than even the average of the past ten years. For example, the total mileage owned by the railways has increased 8,000 miles in ten years. Their operated trackage of all kinds—main tracks, yard tracks, and sidings—has increased more than 44,000 miles. The number of locomotives has increased by more than 6,000, the number of passenger train cars by 7,000, and the number of freight carrying cars by 170,000. The aggregates of locomotive tractive power and freight car capacity have shown even greater relative increases. The number of railway employes has increased. The aggregates of tons and passengers carried have increased. The average haul applied to the average ton of freight has increased. The average number of miles of journey per passenger has also increased. It follows that total ton miles and passenger miles are on much higher levels than ten years ago. All these factors indicate that the railway plant has grown, and that the larger plant is handling an even larger transportation output. This is to be expected from the fact that the United States is a country growing constantly in population, with its industries becoming more diversified an dextended every year. Our production of raw materials is also increasing, which means a larger burden of transportation for the railways.

Looking back over a period of 20 years, the utilization of railway facilities by every man, woman and child in the United States has more than doubled. From 1900 to 1920 the number of ton miles per capita and passenger miles per capita increased 110 per cent. Add to this astounding fact the further fact that our population itself increased 40 per cent during the same 20 years, and it is easy to see why the traffic demands on the railway network trebled during the period.

To handle these constantly growing demands, and to provide for their further growth in the future, the railway plant has been and must continue to be enlarged in every possible way. Clearly, a growing railway plant needs a large net addition of new mileage, equipment and other facilities merely to keep pace with the growing demand for transportation.

Borrowing Needs Large

In the second place, the purchasing power of the dollar has declined to about two-thirds of what it was ten years ago. In other words, for every dollar expended a decade ago for a given physical result something like a dollar and a half must be expended today. As the railway plant wears out —and almost every part of it except the land must be replaced from time to time—the cost of renewing it is greater than the original cost of construction. This, too, calls for additional capital in large amounts. In fact, unless prices fall appreciably, the larger part of the railway plant must be eventually renewed at a cost higher than its present book value, and the amount of new capital needed for renewal alone will run into the billions.

Summarizing, the railway industry must continue to be one of the nation's largest borrowers. While the sale of new stock should become more frequent than at present, the bulk of new railway financing will doubtless take the form of issues of bonds and similar obligations. To encourage the resumption of railway financing through stock, and to make possible the continued input of railway capital that will be required by the development of our industrial resources, the railway rate of return must be stabilized at a point not below the "fair return" contemplated by legislation now in effect. Only so will railway credit become strong enough to attract and to carry the billions of new capital that must be raised in coming years.

Present Trend Controlling Future of Rail Securities

By F. J. LISMAN
of F. J. Lisman & Co.

It is not possible to segregate the problem of the prices of existing securities from the question of placing the securities necessary from time to time for the extension of the American transportation system. The Transportation act of 1920 fixed 6 per cent to be a fair return up to March 31, 1922, on the value represented by the property devoted to railroad transportation. Thereafter, the fair return was to be determined by the Interstate Commerce Commission. This fair return has been fixed at 5¾ per cent until further notice.

Looking at the daily list of offerings of new securities and at the quotations of existing securities, a 5¾ per cent interest rate is obviously inadequate for the purpose of attracting additional capital. No one possessing capital will take the risk of getting 5¾ per cent at best or as a maximum without a guaranty, if at the same time he not only runs the risk of getting a smaller return but of losing some or even possibly most of his capital.

Since this law has been enacted no new railroad companies have been organized and the railroad mileage of the country has actually been shrinking. The amount of mileage abandoned by existing lines has been greater than the new mileage constructed by some of the stronger railroad corporations. Before 1914 there were annually constructed upward of 1,000 miles of new railroad by small companies for the purpose of developing outlying sections. Having made a specialty for many years of financing this kind of development, the writer is in a position to say that this type of construction has permanently ceased, with the possible exception only of some lines here and there which may be constructed for the purpose of transporting some large tonnage awaiting transportation, such as a large timber tract or the product of a mine. In other words construction of short lines will be merely incidental to some large commercial development.

There are large sections of the United States south of the Ohio and west of the Missouri still capable of the same development as was brought about during the two generations when railroad construction preceded settlement. This kind of development must now be done by the automobile. States and counties hereafter will have to build highways at their own expense and the people can be served by automobile lines which need make no investment in charters, right of way, roadbed, but merely in equipment, that is in movable property and without burdensome restrictions. Automobiles, however, cannot open up the huge sections of country with tremendous resources as, for example, Northwestern Colorado and Central and Eastern Oregon and other large sections of the Rocky Mountains and Pacific states.

Additional Capital Must Be Raised

The raising of additional money for the extension of railways, the double tracking of lines and the creating of other additional facilities must be based altogether on existing equities—that is, this must be done by existing companies in good credit. There are very few railroad companies, not to exceed a dozen at most, whose stock commands a sufficient premium in the market to enable them to raise additional capital by the sale of their common stock at par. It, therefore, becomes necessary in order to obtain money, to sell bonds or preferred stock. During 1922 two of our large railroad companies—that is, the Illinois Central and the Chesapeake & Ohio—sold respectively 6 per cent and 6½ per cent preferred stocks. This example is likely to be followed much more extensively hereafter.

The laws regulating the investments of savings banks in New York and many other states limit the investment of savings bank and trust funds to bonds of corporations which have paid dividends on their stock of not less than 4 per cent for a series of years, provided the bonded debt does not exceed three times the capital stock. The bonded debt of many important railways approaches this limit and the companies in order to enjoy the best market for their bonds must, therefore, increase their outstanding capital stock.

It would not be surprising if during the next 12 months such companies as the New York Central, the Pennsylvania Railroad, and others which now have no preferred stock issues, will use this method of raising funds. Naturally, under the prevailing law whenever a security is issued which comes ahead of the common stock and which pays more than 5¾ per cent interest, the equity or potential earning capacity of the common stock is impinged upon and curtailed. Since 1907 all new issues of railroad securities under the Hepburn Amendment to the Interstate Commerce

Act, have had to be approved of by the Interstate Commerce Commission. Upward of $7,000,000,000 have thus been issued and the purposes for which this money has been expended have been carefully investigated and approved of by the commission.

Assuming the present value of the railroads to be $21,000,000,000 or about $2,000,000,000 more than their value, as at present accepted by the commission, then their value in 1907 was $14,000,000,000. This means that during the last 15 years the capital invested in railroad transportation, owing to the burdensome restrictions and the inadequate return on capital, has been increased by but 50 per cent. Unquestionably the transportation system has not kept pace with the growth of the country; this increase should have approximated 6 2-3 per cent. With the present check to immigration, which is likely to be permanent, though not to such an extent as is now the case, the growth of the country hereafter will probably not be as rapid as heretofore.

If we assume that the additional capital required during the next 15 years will be taken care of by another 50 per cent increase, then approximately $11,000,000,000 will be needed. What the average cost of this money is going to be, depends, of course, on the prevailing rate of interest in the meanwhile, but with the risk of the railroad business and the necessity of providing a good portion of this money by the sale of stock, the average cost is likely to be quite a little over 6 per cent. Assuming the cost to be 6¼ per cent, it would mean that the existing junior securities would have to accept a proportionately diminished income.

If the theory of a permissible interest on additional capital of less than the money costs is carried on long enough existing equities will be entirely wiped out by lack of earning capacity, but the providing of additional capital will become impossible long before the equities are entirely exhausted and the Government would therefore have to take over the properties and raise the money itself in order to furnish adequate transportation.

Government Ownership a Failure

Government ownership and operation of railroads has been tried in many countries the world over and has not been a success in any of the larger countries except in pre-war Germany. It was a reasonable success there on account of the peculiar organization and psychology of Germany in the Kaiser's days. The railroads were run in a way as part of the military machine, which was able to hire capable officials at small salaries by capitalizing human vanity which manifested itself in the form of greed for titles. In other words, men whose fair salary, taking the requirements of their work into consideration, should have been the equivalent of say $5,000 per annum, could be engaged for half this salary provided the position was coupled with an ambitious title, of which the whole family partook. Now that Germany is a democracy and state employment can no longer be depended on as a permanent career, officials have to be paid much higher salaries: Furthermore, for political purposes, the German Government, like most other governments, employ an unnecessary number of people who are not giving a full day's work for a full day's pay.

In the United States where huge sums must be spent every year for additional facilities, Congress might be willing to appropriate this money one year and there might be no appropriation during the following year on account of a disagreement as to how the money should be spent. Each Congressman would root for his own district, endeavoring to get shops, yards and extensions located there: The large appropriations necessary for railroad purposes would probably be handled more or less on the pork barrel basis, as is customary with the River and Harbor Bill. Not only the applications for minor jobs, but also those for the better paid positions would probably be more or less handled by Senators and local Congressmen, who would certainly try to influence the railroad administration for the benefit of their constituents.

Before the Transportation Act went into effect, most railroad companies had to get the consent of several state commissioners to any issue of new securities. Several times it happened that the railroad company found difficulty in getting the consent of the commission of one state if all the money was to be expended in some other state and it even became necessary in order to secure this consent to agree to expenditures not urgently needed.

It is the tendency of all governments to pay lower salaries and to employ more men for any work than private employers. Neither will governments pay adequate salaries for responsible positions, and therefore they can seldom get men with the necessary vision and executive ability in order to achieve the best results for the money and labor expended.

Consolidation of Railroads

The Transportation act of 1920 provides that the Interstate Commerce Commission shall plan for the consolidation of all the railroads in the United States into a limited number of systems. It does not permit of any substantial consolidations of the railroads in the meanwhile, that is, until the whole plan is worked out. Senator Cummins, who had much to do with the framing of this law, had in mind at the time the thought that he wanted the weaker roads absorbed by the strong systems, as he

feared that under a system of gradual consolidation, the weak lines might be left out entirely.

It is necessary to remember the point of view of the public early in 1920 when the act was being framed. There was a general boom in business during a period when railroad properties had deteriorated physically in consequence of Government management and labor shortage. Every shipper who could not get cars and who was located on a weak line thought if he were only located along a strong railroad system, he would not have such trouble.

If the radicals in the next Congress have their own way they will want the Government to acquire the strong roads at physical value or the average market price of their securities and to let the weak roads continue their struggle, which would really mean to cease their struggling and become bankrupt. The Interstate Commerce Commission will probably recommend to Congress that it be permitted to authorize partial consolidation. The first step in this direction would probably be permission for the Hill group of railroads to carry out their long contemplated merger. The capital structure of the four principal Hill roads—that is, the Great Northern, Northern Pacific, Chicago, Burlington & Quincy, and Colorado & Southern—is a comparatively simple one. The stocks of the first two companies are selling at about the same prices and are intrinsically probably worth about the same.

The stock of the Chicago, Burlington & Quincy is substantially all owned by these two companies and the majority of the stock of the Colorado & Southern is owned by the Chicago, Burlington & Quincy. The problem of agreeing on the values of the stocks, therefore, hardly arises in this case. If on the other hand, for example, either of the Hill roads, the Union Pacific or any other system, should be requested by the Interstate Commerce Commission to acquire and consolidate with the Chicago, Milwaukee & St. Paul system, the problem would be very complex.

There is about $235,000,000 of St. Paul stock outstanding, which represents a physical value of probably not less than par value, with a normal earning capacity of a fair rate of interest on this value; in fact 15 years ago the company used to pay 7 per cent on the entire amount of its stock. It is the evident expectation of the owners of this property that in course of five or ten years it can again achieve its former earning capacity.

No doubt the stockholders of the Union Pacific, for example, would decline to take this expectation for granted and would only agree to consolidation with the St. Paul on the basis of its present earning capacity, which is more or less reflected in the present price of its securities. Such a proposition would hardly be acceptable to the stockholders of the St. Paul company.

It is doubtful whether any laws providing for compulsory consolidation could compel the Union Pacific company to pay more for the St. Paul stock than its directors and stockholders thought proper or compel the stockholders of the St. Paul to sell at a lower price than they deem fair. Under compulsory consolidation laws such a situation would have to run the gauntlet of the courts and could therefore not be effective for many years to come, even if the law were finally declared constitutional, which is very doubtful.

It would therefore seem that in order to promote consolidation the Transportation Act is likely to be amended so as to authorize the commission to permit and encourage partial consolidation, even to the extent that in some cases lines more or less competitive may be merged. This legislation would be a reversal of public opinion as expressed in the Sherman Act of 1890 and Hepburn Amendment of 1907 to the Interstate Commerce Act. No doubt such legislation would be helpful to the railroad companies and to the public.

Recapture of Surplus Earnings

The very important section of the Transportation Act, which is known as "Recapture of Earning Clause," is now before the courts. This clause provides that anything earned above the fair rate of interest fixed by the commission must be paid back to the Government to be used as a reserve fund, partially for the weaker railroad companies in order to provide them with capital for additional equipment, etc. Thus far in several cases in the lower courts the judges have ruled in favor of the constitutionality of this provision. In a recent case the court interpreted this clause as "the exercise of the taking power of the Government." The Supreme Court will finally have to decide whether 5¾ per cent is a fair rate of return, considering that the companies may not earn this amount in some years, while in favorable years they would have to turn over the surplus above 5¾ per cent to the Government. In other words, is 5¾ per cent a fair rate, especially if the companies are not entitled to have cumulative earnings at that rate? In the decision in the Consolidated Gas case given some years ago when the prevailing rate of interest was rather lower than at present, the Supreme Court held that 7 per cent was a fair rate.

An amendment to the Transportation Act authorizing partial consolidation would undoubtedly stimulate speculation in securities of the weaker railroads.

New Railroad Legislation

It is expected that the President will ask Congress for an amendment providing for the abolition of the Labor

Board and the giving of authority to the commission to fix the rate of wages, because obviously it is preposterous to have one set of men fixing freight and passenger rates and rate of return on the money and to have another set of men fix the item of wages which absorbs about one-half of all the income. It is also intimated that the President will suggest that freight rates be reduced.

President Harding, during the railroad strike a year ago and in many other ways, has shown an inclination to please everybody; in the end he pleased no one, neither the railroad shippers nor the employes. If the leaders of the Republican party should determine to change their attitude on the railroad problem and cater to what appears to be the greatest number of voters, including the farm bloc, etc., the President will have to step very lively because Mr. McAdoo and Mr. Ford, the most prominent Democratic candidates for the presidental office, will manage to keep several jumps ahead of him at all times.

Right here it is proper to say that the reports about Ford being a railroad wizard, which have been assiduously circulated, presumably by Mr. Ford's press bureau, are in no way, shape or manner warranted. They are based on one month's operation of Mr. Ford's railroad, the Detroit, Toledo & Ironton, that is on the earnings of June, 1921. This railroad has on the whole not done as well as its neighbors in spite of the fact that Mr. Ford favors it with his very heavy business. Mr. Ford has been unwilling to furnish the Interstate Commerce Commission with the figures which the other railroad companies are required to furnish and has only complied with the requirements of the commission under considerable pressure. A careful analysis of the report of earnings for the particular month mentioned fully shows the absurdity of the claims for extraordinary results set forth at that time. None of the unfavorable reports since published by Mr. Ford's railroad seem to have had much effect in displacing the misinformation radiated by sensational headlines into the heads of people who desire to get their entire fund of knowledge from such sources or from pictures.

It seems clear that the Congress which will assemble in December, 1923, will spend much of its time on the transportation problem and the uncertainty of what is going to happen then is already troubling everyone interested in railroad securities and management. Quite likely the schemes of the radicals for allowing a return on the market value of the securities only will not pass because on the face of it it is impracticable. All men with legal training and probably all men of common sense know that such legislation would be unconstitutional because it would be equivalent to confiscation of the properties. For example, the New Haven, taking the market value of its bonds and stocks, is selling for considerably less than one-third of its value as conceded by the Interstate Commerce Commission. To be allowed to earn interest only on this depreciated value would not only mean a gross injustice, but it would mean the failure of many banks and other institutions largely interested in New Haven securities and the beggaring of thousands of investors who during the period of its prosperity put their all into this property.

The continuity of an intelligent transportation policy on part of Congress is absolutely essential, but legislative bodies have shown very little capacity for either a continuity of policy or an intelligent policy.

Present Outlook

For the moment, or rather for the year 1923, the outlook for railroad earnings appears quite satisfactory and it is quite probable that the railroads may during the year earn the maximum of 5¾ per cent which they are permitted to do under the present laws and regulations.

It is difficult to look beyond the fall of 1923. At present labor is fully employed. Shortly the farmers will have to engage a large amount of help and will be compelled to bid for this against the manufacturers. As a consequence, crops raised during 1923 will cost more than those raised in 1921 and 1922. If the price for the cereals should decline below the present level, the farmers will not make any money and not only will their buying power be diminished but they will again want legislative help. They will want the immigration laws modified and railroad rates reduced. The attempted modification of the immigration laws will be fought by the labor unions to the utmost and quite likely we may see the unnatural alliance of farmers and labor come to an end. This may have very important bearings in every walk of life and will, of course, affect the railroads.

While the labor situation of the railroads looks peaceful for the time being, an early demand for a rise in railroad wages may be looked for, because if wages elsewhere tend upward railroad wages must follow the same trend. A wage advance would interfere with the possibility of rate reductions which otherwise might come with the close of this year, especially if business in general should remain good. If owing to Europe's impaired buying capacity staples bring a low price, business cannot remain good and then again wages would tend downward, but the difficulty about all these things is that they do not synchronize.

The Only Solution

The railroad problem is like most of our other great problems: In final analysis it is in the hands of the people and if they do not take any interest in public affairs and continue to send incompetent men to legislative bodies, they can only get the results of incompetency. It is necessary for men who have a stake in the community to give a reasonable amount of their time to public affairs and to the selection of good men for office. A certain number must also be willing to serve in public office. Public office at present is the only vocation where, generally speaking, the fit are weeded out and the unfit remain.

In commerce and industry the unfit fall by the wayside. In the public life a thoroughly able man soon discovers that it is more lucrative and pleasant to engage in some other vocation where he will be subject to no political pressure, opposition and petty annoyance. On the other hand the unfit or mediocre largely remain in public life for the purpose of continuing to draw their salaries. They generally do just enough work to hold their jobs, dreading and dodging responsibility whenever possible. Unless the people who have a real stake in the community are willing to make some sacrifices in order to attain better government, this condition cannot be changed.

Praise for Commerce Board

Before closing it is but justice to say that the Interstate Commerce Commission as a whole is much superior to the average governmental body. The commission is composed of eleven men who receive the very inadequate salary of $12,000 per annum, which carries with it the responsibility of supervising $20,000,000,000 worth of investments. No doubt it is this tremendous responsibility which the commission cannot possibly avoid, even if it wished to do so, which has made these men rise above the level of other Government bureaus or bodies. These eleven commissioners are tremendously overworked and Congress has not been willing to give the commission sufficient support in the way of appropriations for adequate salaries for able bureau chiefs and other assistants. Quite true the expenses of the commission have increased tremendously, but not disproportionately to the additional work thrown on the commission. Much fault has been found with the commission in many quarters. This criticism as a whole is unjustified; it should apply to the law under which the commission is working and not to the commissioners.

To sum up, the price of railway securities in the future depends on the crops and their prices which determine more or less the volume of business; on the money market, which has an important influence on the price of securities and on legislation and the outlook for legislation which determines the credit position of the railroads and is the most important factor of all.

Farmers' Primary Interest Is Good Railway Service

By JAMES R. HOWARD

Former President American Farm Federation

The farmer's first need in the operation of his plant is a wagon.

He must have it to take his plow and other equipment to his farm, as well as his seeds, feed, and other things necessary for production.

When the crop is grown and harvested the wagon is again used to deliver the crop to the nearby station.

If the wagon breaks down in the spring season the crop is delayed in the planting. If it becomes disabled in the harvest period the farmer runs a risk of missing his best markets.

The railroad is the farmer's wagon between his local station and the factory or the shipside. It brings him his machinery and seeds and feed as well as food and clothing. When the railroad fails to function the farmer is distressed and when the farmer does not produce his wagon is idle. The principal limiting factor in American agricultural production is Transportation.

From the first westward extension of the Baltimore & Ohio the development of American agriculture and railroad extensions have gone hand in hand. That does not mean that at times one has not pulled or pushed the other. It does not mean that harmony has always prevailed or that community of interest has always been recognized though always existing.

Some things in life are quickly forgotten, others remembered until the second or third generation. A year or two ago while looking over some old family papers I found a $1,200 stock certificate held by my father and uncle in the long since forgotten B. A. & L. R. R.—a projected narrow gauge line of some 40 miles in the community of my boyhood. I recall the old grades—some traces of them show to this day.

But the road went into bankruptcy before a train was ever run. The $1,200 investment was a large one for the family at that day and the loss must have been serious—but no complaint of it ever came to my young ears. Millions of other farmers' dollars helped the financing of other lines—successful and unsuccessful, but in the main not profitable in direct financial returns. The most of this has been long since charged off the farmers' memory account.

A Farmer's Grievance

It would doubtless have been completely forgotten except that a little later on some rail officials in some states sought to protect their rights of way by political fences and hedges. The farmer had been their ally in their economic building. It is safe to say he would have always remained so had the roads played golf instead of playing for State legislatures and conventions and governorships and Senatorships. But they didn't. The result is that the present administrations of transportation systems have a heritage of mistrust and suspicion handed down from father to son that is seeking expression through the same convention halls and legislative assemblies the roads formerly sought to dominate.

The American farmer places political equality and independence above all else. 'Twas not tax principle that spilled England's tea, and human nature has not changed. Tea will continue to be spilled every time the common people of America sense domination of inequality in any spot or place.

The two most important factors entering into the farmer's relationship with the railroads are service and rates. Of the two service, though less mentioned, is of most importance.

Rates determine the "out of pocket" dollars which the farmer pays the railroad. Part of this is for the bringing in of implements and building material, fuel, seeds, feed, food and clothing. It is freight bill payments even though settlement is with the lumber man or hardware merchant or clothier or butcher rather than with the station agent. It aggregates an enormous amount, for it is the carrying costs from factory to farm on some $7,000.-000,000 of commodities which are annually consumed by the farmer. These dollars are additional factors in high level of retail commodity costs, or the spread between consumer's costs and producer's prices.

"Out of Pocket" Charges

The major freight payments, however, are paid directly by the farmer on his outgoing product, for we must pay the freight in advance from the farm to the factory or process or whether butcher, miller, or spinner lives in Chicago or Boston or Liverpool or Bremen.

It is these freight deductions from the pay check that hurt because the farmer cannot immediately pass them on as can other industries. They are truly "out of pocket" charges. They are subtraction factors in the spread between producer's prices and consumer's costs. The farmer's freight is like Simon Huff's two bitted axe—cuts comn' and gwyin.'

In the periods of gradually decreasing or level maintenance of rates the farmer had a gradually increasing price level for his products. From 1915 to 1920 the rise was rapid. But in 1920 the famer's prices dropped more than 50 per cent. On many commodities and in some localities the division was by five—on some ten—and this happened just when rates were multiplied by two. Thus a great economic problem has been evolved. It is a problem of relationships. The farmer must have transportation. The nation must have the farmer. The reasonable prosperity of all is essential. It can only come from readjustments on the part of all. Until these readjustments are made the farmer's demand for lower rates will continue justly insistent.

Complaints on Service

The farmer's complaint concerning service is fully as justifiable as that about rates. Even before the war service was declining. Cars were harder and harder to get. When the farmer's note was due at the bank, or he had to have money to pay rent or taxes, he was crippled in his marketing because the local warehouse or elevator was full and no cars available. Twenty and thirty years ago stock loaded at Clemons, Iowa, at noon today would be in Chicago by sun-up tomorrow. Now it takes at least two nights and a day. Losses from shrinkage are increased. On most roads, stock yards, loading platforms, and scales are in bad repair. They have not been properly kept up for years. Poor service has intensified the feeling created by high rates.

Last August I bought a car of feeder pigs in Kansas City and shipped them to Clemons, Iowa. The most direct routing is 293 miles. The car was OK'd by the receiving road. The pigs were shipped under inspection of Bureau of Animal Industry. The weight was 880 pounds under minimum on which I paid freight. The car was four days en route. Twenty-seven pigs were dead on arrival. The shipment was under carrier responsibility. A damage claim was at once filed. Some months have passed without settlement.

In February I bought two cars of calves, 97 head, at the same market to consume my surplus hay and silage. This shipment was enroute 56 hours, averaging about five miles per hour. There were no strikes or storms to hinder. The calves were sick when unloaded. Two veterinaries said the cause was starvation and exposure. Ten died and others were weeks in recovering. No acknowledgment yet of receipt of a damage claim filed a month ago.

Cases Not Unusual

These cases are not unusual or infrequent. I am not contending there are no "Extenuating circumstances." I am stating that I am in no wise responsible and that the loss through lack of service is many times the freight cost. From the angle of my barn door, I paid a big freight bill to a big corporation from which I had every right to expect service; and I am holding the sack. Thousands of farmers can report similar experiences.

The railroads have made a remarkable recovery during the past year. The farmer will get direct benefit. The tonnage from our industries has been largely responsible for the recovery. To carry this industrial tonnage the cars going East with agricultural products have not been promptly returned.

The system of car distribution which is in operation may move the maximum tonnage and gets the best results from the national point though it is by no means certain that it does. But it is not satisfying the Midwest or the Northwest farmer.

When Jones of Hickory Farm is ready to market his wheat or hogs he doesn't lend his wagon to his neighbor. When the local station agent tells him he can't get cars because they are all down East, Jones cusses the railroads and Wall Street and other powers that are or are not. He reasons that the roads are public carriers with the obligations of public service. The wheat belongs to him. The time for marketing has come. Jones is part of the public. He claims just as much right to service as the Steel Trust or Packers or anyone else.

Jones does not stop to consider that cars cost money and that the service he demands must be paid for from a draft on his own wheat or hogs. He does not consider that if he and all his neighbors could market at any time they might glut the markets and lower the price.

Learning to Reason

Jones has not learned to reason his own problems in terms of relationship. Neither have many other fellows. If they had, probably Jones would get more cars.

The farmer is not a bad fellow when he has facts. In truth there is none better or fairer. What is needed above all things is trustworthy information—both about the railroad and the farmer—economic facts—not political bunk. The present needs of agriculture and the future outlook demand not a national railroad policy, nor a national highway or marine policy, but a national transportation policy in which the highway and railway and ship and airplane are properly co-ordinated to produce the maximum results for all. And that national transportation policy should also consider transportation in relation to the farm, factory, mine and to every other industry. It must also be an economic and not a political policy. No amount of legislation will ever make good farmers or good railroad presidents.

Government ownership? Not on your life. The farmer had enough of that during the war. He reasons Government ownership of the railroads means Government ownership of all essential industries, including sooner or later his own farm. He believes in the preservation of personal initiative and property rights. All he wants is his regular turn at the pump handle.

Interests of Roads and Farms Declared Mutual

By F. L. CHAPMAN,

Editor, "Better Farming"

I shipped 12 carloads of sheep from our Western ranch to the Chicago market. The distance is 1,600 miles. The run should have been made in seven days. It required 12. The losses and shrinkage were heavy and I was mad.

A railroad is an impersonal corporation, but when you hear repeatedly that a particular railroad which appears to have done you an injury is owned mostly by a man down near Wall Street, the grievance is harder to control. I had heard so often that this man and that man owned this road and that road that I foolishly made the assertion myself and my accuracy was challenged.

I investigated. I was wrong. For instead of that gentleman or any gentleman owning all or half or even a quarter of that particular road, he didn't own enough stock to elect himself a director, unless quite a few of the other 33,246 stockholders voted for him.

It will be a surprise to many people as it was t ome to learn that we have already achieved in rather recent years public ownership of our railroads. With very little effort I could ascertain the present number of stockholders. All I know at the moment is that ten years ago there were more than 300,000. At that time the Pennsylvania Railroad

had 65,000, and more than half of them women of minor children. Today the Pennsylvania has 137,000 individual stockholders. Since its lines constitute nearly one-tenth of the country's total mileage, it is possible that ten times 137,000 or 1,370,000 stockholders are the actual owners of our American Railways.

Public's Investment In Railways

But I said, as many others are saying, "Well, I don't own any of it." Possibly you don't! But who owns the bonds, about $9,000,000,000 worth? Very largely the banks in which you and I are carrying a deposit or a loan. We don't wish our bank to lose out, for then we may lose our deposit or may have to pay our loan before it is convenient to do so. The life and fire insurance companies also own a lot of railway securities and all of us carry some insurance. Perhaps some of us have a life savings involved. So I kept thinking and the longer I reflected the more I became convinced that I was very much interested in railroads and I began to think of their problems more sympathetically.

To study a problem sympathetically is to study it with understanding. To approach it with hostile prejudice is to blind the eyes with ignorance in advance. So I took the pains to trace as far as possible the causes for poor service on my shipment of sheep.

I found there was, first a shortage of cars, which delayed the loading; second, engines in poor repair; third, track in many places out of condition; fourth, cars from weaker foreign roads in bad order, a draw-bar pulled out of one, a brake-beam fell down on another and almost ditched the train.

There are a dozen causes, major and minor, and for every one of them I was as much to blame as the president of that railroad because I had been doing too little to combat the unreasoning and unintelligent and unfair hectoring and hampering of the railroad industry, for ten or fifteen years past, while every responsible official on that particular line has sweat and struggled to keep the line open and trains on time and give service to the public while they were giving not one cent to the 33,000 stockholders, little and big, who owned that road.

I am thinking of this question purely in my character and occupation of a farmer and this is what I think:

I think that the farming business and the railroad business are so utterly dependent upon each other, their interests are so identical that the man who drives a wedge between them is either crazy or he is a crook.

Government Ownership Offered

Perhaps he is neither, but just ambitious to capture leadership among farmers and, to entice them, he is willing to deceive them to their great injury.

The railroads collect about a billion dollars each year from the farmer and his family for freight going and coming to and from the farm. That's a heap of money. Is it too much? I don't know, but I do know that the average rate is only 50 per cent more than it was in pre-war days, although the cost of doing business just as the cost of doing farming has increased by more than 50 per cent. For the three big items of railway operation, namely, labor, taxes, coal, the cost has more than doubled. I know also that railway net income has been so precarious for ten years past that railroad stocks have gone the direction of the German mark and they will go the full route if malevolence and ignorance do not desist in their intent, which intent appears to be to put the railroads out of business, compel Government ownership, create 2,000,000 positions little and big for the politicians to haggle over and let those 2,000,000 employes tell the rest of us 108,000,000 when the trains will run and when they will not run.

But that is not my only objection to Government ownership, which is something, by the way, that I almost favored very briefly at one time. I changed my mind. The man who will not change his mind, if necessary, on presentation of new facts has not much of a mind to change.

These two facts changed it.

1. I don't wish to increase our national debt $20,000,000,000. That's the least the roads would cost us. We would have to issue bonds to buy them. They would be Government bonds with the Government's guarantee of interest every minute.

2. I don't wish to pay more taxes. If the railroads belong to the Government they pay no taxes, no more than any other public property. In one county where I do some farmng two railroads paid $113,000 of the taxes last year. If that amount had to be distributed among the sparsely scattered farmers and small people of that county it would be adding to their burden cruelly.

Agitator Needs New Issue

Therefore, I prefer to pay the present rates on traffic. I prefer that to a big increase in my taxes. Especially so since freight rates may again come down as they have done twice for the farmer in 18 months. But taxes come down? Never in your lifetime nor mine.

What I want most of all is service and I don't see how any railroad can give it unless it has a good safe track and sufficient cars and the ample power to pull them, and that means enough money to buy them.

Doesn't it make you tired to hear some of these bushy browed declaimers trying to make us believe that the present high freight rates are paralyzing agriculture? How much of our total expense bill in farming is freight anyway? Six, possibly eight per cent. How much do we wish knocked off? Enough to bring the rate down to that of 1913? All in favor say "aye"! The ayes have it. Now we have saved two per cent of our yearly expenses. The annual expense of the average farmer is $1,500. Two per cent saved on that is $30. That settles it. We are saved. The country is saved. Everybody is happy except the agitator who is hunting for a new issue.

My dear good farm people, I should not play with such a serious topic. But the fact is, that isn't the topic which confronts us. The question before us is not "shall we save a few dollars on freight?" but 'shall the railroad business remain a business or shall it be a Government agency owned in common but run by political employes?" If it is to remain a business it will have to be run as a business and run to pay at least 6 per cent for its owners. If it is to be communized, that is owned in common, I am just warning you that the communists will not wish to stop there. They will some day covet our farms.

They can't have mine!

Presents Farmer's Problem of Rates as One of Geography

By SYDNEY ANDERSON,
Member of Congress from Minnesota

Fundamentally, the freight rate problem of the farmer is one of the geographical relationship between agricultural production and industrial production and population. Fifty per cent of the population of the United States lives in the section of the country east of the Mississippi river and north of the Mason and Dixon line, comprising fifteen per cent of the area of the United States. In this section of the country seventy per cent of the manufactures and only twenty-eight per cent of the agricultural commodities originate. To turn the statement around, seventy-two per cent of the agricultural commodities and only thirty per cent of the manufactures are produced in the eighty-five per cent of the area of the United States outside of this district.

A glance at the map of the United States with these figures in mind will very definitely demonstrate that the farmer's freight rate problem is, therefore, one of distance from market. The farmer's net return is primarily determined by two factors—first, cost of production, and, second, the cost of getting his products to market. Freight upon farm implements, binding twine, and other materials which enter into production are a considerable factor in the cost. For example, the farmer at Springfield, Ill., could have a farm wagon, a gang plow, a corn binder and a grain harvester shipped to him from Moline, Ill., on Oct. 15, 1921, for $12.50, while the farmer at Goodland, Kansas, would have to pay $69,62 on the same date.

The Proportion of Freights

In the case of the farmer at Springfield, Ill., the freight was 1.78 per cent of the factory price, and in the case of the farmer at Goodland, Kansas, 9.94 per cent.

Again speaking broadly, the net return received by the farmer for his products diminishes in ratio with the distance from market. This conclusion is illustrated by the following table:

STATE	WHEAT			CORN			OATS			BARLEY		
	Farm price Dec. 1 (cents per bu.)		Index No. for Dec. 1, 1921 (1913 =100)	Farm price Dec. 1 (cents per bu.)		Index No. for Dec. 1, 1921 (1913 =100)	Farm price Dec. 1 (cents per bu.)		Index No. for Dec. 1, 1921 (1913 =100)	Farm price Dec. 1 (cents per bu.)		Index No. for Dec. 1, 1921 (1913 =100)
	1913	1921		1913	1921		1913	1921		1913	1921	
New York...	93	108	116	81	67	83	47	47	100	69	62	90
Ohio.....	90	108	120	63	41	65	40	33	83	58	51	88
Indiana.....	88	106	121	60	37	62	38	29	76	50	48	96
Illinois.....	86	100	116	63	38	60	38	29	76	57	46	81
Iowa.....	76	88	116	60	30	50	34	23	68	55	42	76
Nebraska...	71	83	117	65	27	42	38	21	55	49	28	57
Colorado....	78	76	97	73	31	42	44	33	75	56	37	66

This table not only indicates the effect of distance from market, but also the corresponding effect of distance under the higher rates applicable in 1921 as compared with 1913. The effect of distance from market upon the net return of the farmer is even more strikingly indicated by figures taken from the report of the Joint Commission of Agricultural In-

quiry, showing the proportion of the wholesale price absorbed by freight on shipments of fruits and vegetables to eastern markets, including Chicago, during the period of September, 1920, to July, 1921.

In the case of barrel apples, produced largely in New York and Michigan, freight absorbed 12 per cent of the wholesale price, whereas in the case of box apples produced largely in Washington and Oregon, freight absorbed 36.23 per cent of the price. Freight absorbed 40.9 per cent of the wholesale price of northern cabbage, 66.35 per cent in the case of southern cabbage and 70.8 per cent in the case of California cabbage.

Freight absorbed 12.4 per cent in the case of northern grapes, 28.11 per cent in the case of California grapes. Freight absorbed 30.83 per cent in the case of northern onions, 46.91 per cent in the case of Texas onions, and 57.06 per cent in the case of California onions.

Disadvantage of Distance

These illustrations point conclusively to the importance of the geographical relationship, to which I referred in the beginning. This disadvantage of distance from market will decrease as the centre of manufacturing and population moves westward and as the farmer finds markets closer to him and more definitely relates his production to the markets that are nearest to him.

The illustrations given show that, broadly speaking, the farmer's net return is directly influenced by the cost of getting the product to market. The full measure, therefore, of the influence of freight rates upon the farmer's net return can only be ascertained by measuring the freight cost in relation to the price received in different periods.

From 1910 to 1915, indexes showing the weighted average price of 31 farm commodities and railroad freight revenue per ton mile show that the price of farm products and the cost of transportation maintained substantially the same ratio to each other. Beginning in 1915, the price of agricultural commodities rose very rapidly, and while the revenue per net ton mile also rose, it rose less rapidly, so that assuming that a bushel of wheat would purchase a dollar's worth of transportation in 1913, the same bushel of wheat would have purchased $1.86 worth of transportation in 1917.

But the conjunction of a perpendicular decline of agricultural prices with the pyramided advance of August, 1920, resulted in such a reversal of the relationship between the price of agricultural commodities and the price of transportation, that the bushel of wheat which in 1917 would have bought $1.78 worth of transportation would buy only 62 cents' worth of transportation in June 1921.

With the rise in the price of agricultural commodities in recent months, this discrepancy between agricultural prices and the cost of transportation has gradually diminished until the farmer's dollar in terms of transportation is today worth about 100 cents.

The influence of these changed relationships between the price of agricultural commodities and the cost of transportation can be illustrated by a few examples. In 1912-1913, the average price paid for No. 2 dark northern spring wheat at the country elevator at Mansfield, South Dakota, was 76.1 cents per bushel, the freight rate to Chicago was 13.2 cents, which was 17.3 per cent of the price at the country elevator. In 1915-1916, the average price was 109.9 cents per bushel, the freight rate 13.2 cents or 12 per cent of the country elevator price. In 1920-1921, the average price of 142.3 cents per bushel, the freight rate 23.5 cents or 16.5 per cent of the country elevator price.

In 1912-1913 the average price of No. 3 mixed corn at Winner, South Dakota, was 37.3 cents per bushel, the freight rate 15.4 cents or 41.3 per cent of the price. In 1915-1916, the average elevator price was 49.1, the freight rate 15.4 cents or 31.4 per cent of the price. In 1920-1921, the average price was 30.7 cents, the freight rate 28.3 cents or 92.2 per cent of the price.

Relatively, freight rates are below the price of clothing, fuel and light, building material, and house furnishings. Since November, 1920, and until recently they have been above agricultural products. They are about on a level with the general price level now. It would seem to be sound to conclude from this statement that the excessive freight rate burden borne by the farmer has been due primarily to the fact that the price of agricultural commodities has been below the price of transportation rather than because the price level of transportation has been above the price level existing in the country.

It would seem to follow, also, that the disadvantage of the farmer in the matter of freight rates might be remedied in either of two ways: one, by a reduction in freight rates upon agricultural commodities to be reflected in a higher net return, particularly in the case of the farmer at long distance from the market, who is most affected; or, two, by such measures as would result in bringing the price level of agricultural commodities up to the level of commodity prices generally.

There are many factors which point to the gradual closing of the gap of the price level of agricultural products and transportation and other commodities, and it is certain that the farmer would be benefited far more by the raising of the general price level of agricultural products, if that is possible, than by a reduction in freight rates. Nevertheless, if relief does not come speedily in this way, the farmer may be compelled to seek it in the other.

Railroads Overwhelmed by Uninformed Free Counsel

By T. C. POWELL,
Vice President, Erie Railroad

The farmers and the railroads are in the same boat. Each is suffering from an abnormal cost of operation based upon the increase in the market value of labor and materials.

For many years the farming population of the country exceeded the urban population, and it was not until the 1920 census that the statisticians developed that there were more people living in urban communities than the number living on farms and in hamlets and villages of less than 2,500 inhabitants.

Even with this change, however, there are something like 32,000,000 people actually living upon farms, and, therefore, depending upon the direct product of the soil for their livelihood and happiness.

Both the farmers and the railroads are also suffering from a multiplicity of advisers.

There are many people, some of them of good intentions, who believe that neither farming nor railroading can be carried on successfully by those directly connected with the work, unless the farming and railroad fraternities are showered with advice.

Time was when land was cheap, fertilizers were not required, hard surfaced highways and tourist trains had hardly been dreamed of. The farmer's wife made her "pin money" from selling the poultry and eggs, and butter, which she produced herself as a side issue of the general farm work.

In 1851 Ohio was the leading state in the consumption of corn used in the production of whiskey. Then years later the Civil War broke out, and prices were advanced.

In 1873 was the great panic, and there have been successive panics since then.

Had Food, Shelter, Raiment

All through these fluctuations of business prosperity, however, the farmer with few exceptions has had plenty of food, sufficient clothing and a sound roof over his head.

The failure of a brokerage house, or of a mercantile establishment, had no effect upon the material comfort of the farmer.

Conditions abroad also contributed to his prosperity in that a market was thereby afforded for the live stock and grain, and products thereof.

All through these periods the railroads were constructed from the Atlantic to the Pacific and from the Canadian border to the Gulf. Rates of freight were so low and the facilities so convenient that the farmers, as well as the merchants and manufacturers abandoned the rivers and the canals as being too limited in scope and too expensive in the long run as compared with railroad transportation.

Why should any alarm be felt because the people born in the country are moving to the cities? This insures a healthier growth of sentiment because the country-born man or women, even when living in the city, can better understand the problems of the farmer than if born in the city and acquainted with nothing but the paved streets and the blocks of houses and buildings.

Statistics show that there is also a movement from the city into the country. In other words, there is a constant flow back and forth, greater in a degree, perhaps, from the country to the city, until the equilibrium is established, but not harmful to the country and probably beneficial to the city.

Why should the farmer employ more people than are needed to produce the crops which he call sell?

Sufficient account has not been taken of the fact that machinery today has so reduced the need for man power that a boy of fifteen can do an amount of work in the way of plowing, harrowing, reaping, pumping, etc., which without these tools would have required three or four men to accomplish.

Use of Modern Facilities

The addition of all these facilities, including the automobile and gasoline engine, have in effect brought closer together all parts of the United States.

Years ago one of the persistent pieces of advice given to the farmers was to improve the highways, but with the slow moving vehicles drawn by animal power such an investment would have been not only an extravagance from the standpoint of the farmer but a tremendous burden upon him financially, because he could not have made full use of these highways with the facilities at his command at that time. So, looking back on the period before the automobile, we find that the highways were maintained either by the state or county, or by turnpike companies, and the cross roads were maintained by the farmers working out a road tax.

But with the advent of machinery on the farm and with the use of the automobile in transporting the products of the farm to the railroad, the associa-

tion between the farmer and the railroad has become closer than ever before and particularly between the farmer and the great trunk lines stretching from the Atlantic to the Pacific, because while 'westward the course of empire takes its way," the course of foodstuffs is eastward.

And, therefore, it can be confidently stated that the effect of railroad rates upon the farmer's prosperity is to increase that prosperity and make it permanent to the extent that the farmer avails himself of the transportation facilities offered and which are provided for him at a lower cost per ton handled than in any other country in the world.

The relation between a railroad rate and the value of an article in and of itself is frequently incidental, because it is not the value of the article at the point of consumption that is affected as much as it is the value of the article at the point of production through the availability of these highways of commerce.

Drive for U. S. Ownership Blamed for Rail Unrest

By BEN W. HOOPER,

Chairman U. S. Railway Labor Board

When I came from the East Tennessee mountains to serve on the Railroad Labor Board, what I did not know about the railroad labor problem would have filled a Carnegie library. There are some folks who think that my condition in that particular has not yet undergone any noticeable change.

Frankly I do not regret that I was endowed with such a large fund of ignorance when I came on the Board. Previous ignorance of the controversies between railway managements and employes is one qualification for a public member of this Board. It should contribute greatly to his fairness and impartiality. It is the same qualification required of a juror—not to have formed or expressed an opinion.

A few of the impressions made upon a man from a rural community in dealing with this railroad labor question may be of interest to railroaders.

Now, I am going to put my finger on what seems to me to be the sorest spot in railroad operation today.

Not so many years ago there prevailed among railway employes a fine spirit of loyalty to the road for which they worked. No other industry in this country could boast of such morale among its workers and such faithful allegiance to the interests of the employer. The employes were looked upon as the responsible representatives of the railroad. Men in the train and engine service particularly were regarded by the general public as officials of the road. Men belonging to any branch of the service could always be depended upon to say a good word for the road whenever it became necessary. That this devotion of the employes was conducive to successful operation and good service to the public there can be no doubt.

Today this very desirable condition is absolutely reversed. For the last several years there has been an increasing hostility to the carriers among all branches of the service. It has now reached the point that many leaders, and a large part of the membership of the railway labor organizations, lose no opportunity to criticize and condemn the roads. The criticisms here referred to are not those relating simply to the controversies between the man and the carriers. Those things are to be expected. They have always occurred and naturally always will. The unfortunate and disturbing fact is that unceasing attacks upon the carriers by the employes are made, based upon every imaginable phase of railway management, operation and policy. These attacks are not made from the standpoint of employes, but from the standpoint of outsiders. The alleged misdeeds of railway promotion and financing of a generation are dug up and paraded. The inherent difficulties of railway management during the present period are pointed to as evidences of incompetency, crookedness and mismanagement. No argument is overlooked that will tend to excite the hatred of the employes and the distrust of the public against the railways.

The magazines of many of the railway labor organizations are filled with such propaganda. Of course, this feeling is not universal among employes, for there are exceptions, but it is widespread and general.

This is indeed a most remarkable situation. It has no parallel in this country. A private business would not survive and prosper very long if its employes were making war on it in this way.

Now what is the cause of this condition? It cannot be attributed to the fact that the treatment of railway employes by the managements has grown worse, for such is not the case. It may, of course, be aggravated on an occasional road by the undiplomatic policy of a hard-boiled management. It cannot be said that working conditions and wages are not as good as they were in the days when the men were loyal to the roads, for the facts are to the contrary.

Then what is the trouble? There is only one possible answer. The very obvious desire upon the part of the many employes that the carriers shall fail and collapse is due to their advocacy of Government ownership and operation under the Plumb Plan or something similar. Anything that will drive or lead public sentiment in this direction is looked upon with favor.

Antagonism Calamitous

This policy of antagonism to the railroads upon the part of its employes is, in my judgment, a calamitous mistake. It will not bring about Government ownership of the railways. It is not at all probable that Government ownership will be effectuated during the railroad service of any employe now living.

This antagonistic attitude of the employes will, however, work to the great detriment of the public by weakening efficiency of transportation and increasing its cost. On the other hand, it will not enhance the ability of the carriers to pay a decent dage.

It may also be said that the experience of the European and other countries with Government ownership does not furnish any convincing proof that such a system would prove beneficial to railway employes in this country.

If the failure of private management should be occasioned by methods that would unload the railroads on the Government in a broken-down condition, the employes would suffer great losses before rehabilitation could be accomplished by the Government.

And, while this abortive campaign to hasten Government ownership is in progress, not only will the general public be harassed and injured, but the employes themselves will vastly detract from the happiness and contentment of themselves and families. Moreover, it is not quite on the dead level anyway for an employe to fight an employer all the time he is working for him.

Nothing that I am saying here has any reference to the efforts of railway employes to improve their conditions of employment and to secure just and reasonable compensation for their work. I am merely trying to impress the thought that it is profoundly to the interests of the public, the employes and the railroads that the old-time morale of the railway workers should be restored.

Railroad Problem's Solution Lies in Public Understanding

By WALTER B. BROWN

Editor, New York Commercial

If the threats of the radical element in Congress have done nothing else they have brought the transportation problem squarely before the people, and there has arisen a demand for a better understanding of what this problem really is. America is the richest country in the world. Its welfare demands that it have the finest transportation system in the world. It has it. With all its shortcomings, there is nothing to equal it anywhere. Yet, even at that, it does not measure up to the nation's requirements. It cannot be denied that there is a great amount of public hostility to the railroads, some of which may have been justified in times past, but most of it is unjustified at present, and is acting as a handicap upon railroad development.

This hostility is due, where it is not the malicious work of political demagogues, to misunderstanding on the part of the public, or rather to lack of understanding. The American public is fair-minded. It needs only to be assured of the facts to arrive at a fair conclusion. Public opinion is the most powerful agency in the conduct of our affairs. If it can be demonstrated to the public that the cause of the railroads is just, then the power that it represents will be enlisted on its side.

The public must be educated then to the fact that its own welfare is so closely interwoven with that of the railroads that impairment of the efficiency of the roads is a public injury. The demagogues, and those who give the matter little thought, look upon the railroads as if they were owned by a small coterie of Wall street speculators. The amount of stock actually traded in in Wall street represents a very small percentage of the holdings, and is the same stock turned over and over. Who really do own the railroads? Those who have the prior lien upon the physical property of the railroads are the bona

holders, of whom there are approximately 1,000,000. That is to say, fully one million citizens of the United States have invested their savings in bonds for the purpose of furnishing capital to build the right of way, build rolling stock and stations. The amount of money represented in railroad investment is so enormous that it could not come from a few individuals, but has to come out of the savings of the people. The actual owners are the stockholders, of which there are 863,000. One can hardly consider that there are that many conspirators in the United States bent upon cheating the public out of what is justly its own. Here we have 1,863,000 members of the public having a direct financial stake in the earning capacity of our transportation system. If the roads do not render an adequate return upon the money this large portion of the public has invested, how will it ever be possible to obtain more money to meet the still greater expansion which the growth of the country demands? The late James J. Hill estimated that it required a new investment of a billion dollars a year to develop the railroads so as to keep pace with the growth of the country. Are we then to stop where we are and so strangle our railroad system that it cannot grow? If so we would only be strangling ourselves.

But we have not finished with those who are financially interested in railroad earnings. There are the employes, of which there are 1,800,000, approximately the same number as there are bond holders and stock holders. Whence comes railroad capital? Not out of the pockets of a few rich persons, as we have already shown, but out of the savings of the people. Railroad bonds and certain approved stocks are held by financial institutions, but they, in turn, are merely investing funds entrusted to their care. The first in line are the savings banks, and every savings bank depositor, therefore, has a partial interest in some railroad. These total 9,619,000 individuals. Next coma the life insurance companies, who are large holders of railroad stocks and bonds. An insurance company is merely the custodian of the funds of its policy holders, and its welfare, and their welfare depend upon the safe investment of these funds. There are in the United States 17,663,249 life insurance policies of over five hundred dollars each, every one of whom has an indirect stake in the railroads. But we have no business to draw the line at that point. The small industrial policy holders are entitled to just as much consideration, and of these there are 54,096,515. Disregarding duplications for which allowance would have to be made, because the same individual might be represented in each one of these classifications, we have 85,000,000 out of our 110,000,000 directly or indirectly interested in the distribution of railroad earnings. It is impossible of course to form any idea of what these duplications amount to, but they would represent only a relatively small percentage, and not enough to alter the fact that the failure of the railroads to earn a fair return on their investment would be a public calamity.

But turning to the problem of service, what would happen to the public if the railroads were throttled so that they could not give that service? We had a bitter example last fall, when the farmers in the wheat growing sections were unable to get cars enough to ship their crops to market. The farmers would be the greatest sufferers, but industry would suffer just as much, if it could not secure adequate transportation for the products of its factories. On the other hand if the railroads can be allowed to function normally they will solve their own problem, and their earnings will reach the point where they can give adequate service, and at the same time reduce rates to a basis that will conform to the needs of agriculture and industry.

There is much loose talk of Government ownership. It is considered synonimous with public ownership. It is not. The public already own the railroads. The solution of the railroad problem is simple. It cannot be found by antagonism. It can only be found through co-operation.

The solution is for the public to work with the railroads instead of against them.

Outlook Is for Sane Rail Legislation by Congress

By ARTHUR W. CRAWFORD

Washington Correspondent, New York Commercial

Washington, May 7.—Though much has been written and will be written about drastic changes in the Interstate Commerce law, including, of course, the so-called Esch-Cummins act, at the next session of Congress, a careful analysis of the situation does not warrant a prediction that such changes will be made in the law.

Many conflicting forces will be in the theatre of action when the Interstate Commerce Committees of Congress begin hearings some time after Dec. 3, 1923, when Congress resumes the work, barring, of course, an extraordinary session in the meantime. And the outcome, as always, will be a compromise if the stage of final enactment of new railroad law is reached.

It must be kept in mind that existing conditions at the time proposed railroad legislation is being framed will be a most important factor. If the farmer has dissipated a large part of his discontent through having some of the coin of the realm in his purse; if the railroads have met the transportation demands of the country in an effective way; if railroad labor is not obsessed with the idea that it is downtrodden—the way of those advocating radical changes in the law will be hard.

Question Before Congress

It is not to be questioned that the transportation facilities of the country need such consideration as will develop them into an efficient machine for the handling of the nation's traffic. Whether or not this problem can be met best by additional legislation which will increase the regulatory powers of the Government or by leaving it to private initiative is the debatable question which will confront Congress.

A review of the various organizations and classes in the nation's life which will participate in the hearings before the Interstate Commerce Committees and the things they stand for demonstrates the futility of predictions that this will be done or that will be done.

There are the "Big Four" Brotherhoods, the organized railway employes represented by the railway employes' department of the American Federation of Labor, the members of Congress, who call themselves "progressives" under the leadership of Senator La Follette, of Wisconsin; the Chamber of Commerce of the United States, the National Industrial Traffic League, the National Association of Owners of Railroad Securities, headed by S. Davies Warfield, the National Association of Railway and Utilities Commissioners, and, last but not least, the railroads themselves.

Constructive Legislation Seems Sure

If any prediction were to be made at this time as to what the net result will be with reference to railroad legislation well into the middle of 1924, it would appear that it would be that the legislation, if any, will be more of a constructive than of a destructive nature, and that radical changes will not materialize.

Senator Cummins, chairman of the Senate Interstate Commerce Committee, possibly backed definitely by the Administration influence, will pursue his conviction that the main solution of the railroad problem lies in compulsory consolidation of the railroads into a limited number of systems prescribed by the Interstate Commerce Commission. He may also urge enactment of the proposals of the owners of railroad securities for the pooling of freight cars, including the financing of the purchase and repair of such equipment.

The indications are that the railroad managements will oppose both proposals. They evinced no warmth of feeling for compulsory consolidation when it was proposed by Senator Cummins during the framing of the Transportation act, and as to the second proposal, they are on record definitely as opposing legislation giving effect to pooling of equipment, etc.

Fight on Labor Board Has Died Down

The fight for abolition of the Railroad Labor Board has died down. It is understood that the "Big Four" Brotherhoods still have under consideration the question of whether or not they will make an active fight for repeal of the provisions of the Transportation Act creating the board. The railroad managements are not likely to come out in the open as a whole against the board, whatever their convictions may be as to leaving wages and working conditions directly to the managements and the employes.

The Traffic World, a transportation publication read widely by shippers and railroad officials, which has taken a most positive stand for abolition of the Railroad Labor Board, in a recent issue said:

"We do not, therefore, recede from the position that the Labor Board ought

to be abolished, when we say that no change ought to be made in the Transportation Act by the coming Congress. We submit to it as a more or less necessary evil accompanying the benefits that transportation is at present receiving from that law and that it should be allowed to continue to receive."

Radical Changes Opposed

The National Industrial Traffic League, at its recent convention in Dallas, also took a definite stand against radical changes in the law at the next session of Congress. On this point the league said:

"Unquestionably, transportation legislation is going to be one of the main topics for consideration in the 68th Congress. The industrial traffic men of the country should make use of the opportunity to demonstrate to our representatives the unwisdom of making very radical or sweeping changes in the regulatory law."

With reference to the Brookhart bill for taking the "water" out of railroad securities the League showed the ridiculousness of that law in the following language:

"There has been considerable agitation in favor of some provision of law making the market value of railroad securities the basis upon which a reasonable return should be determined and in this way using this value to determine the general level of freight rates and passenger fares. In order that the position of the League may be made clear we recommend that the League go on record as opposing proposals of this character, for the reason that the market fluctuations of securities are frequently wholly foreign to the question of the value of the property represented by them. Under this theory of rate making, if the level of rates were too low so that the carriers did not earn an adequate return, this would in turn compel the value of the securities to be depressed on the markets, and thereby furnish legal reason for further reductions in such rates, and conversely high rates would advance the prices of securities and these in turn justify further rate increases."

Drive on Rate Making Section

A concerted drive will be made to repeal the rate making section of the transportation act which directs the Interstate Commerce Commission to prescribe rates that will yield as nearly as may be a fair return on the property devoted to the use of transportation and which fair return now is fixed at 5¾ per cent—a return that has not yet but which may be achieved by the railroads in 1923.

Senator Capper, of Kansas, is the chief proponent of repeal of this section. He has told his constituents, hard pressed by economic conditions, that repeal of the section would result in lower freight rates. He has not told them, however, what would happen to the transportation facilities if the railroad net become much less than it is at present. On this phase of the situation, the railroad managements and the owners of railroad securities will probably stand together. The rate-making section was advocated by the security owners and they will vigorously oppose an attempt to repeal it.

The situation with respect to the rate-making section, however, will be complicated on account of the fact that even those who wish to see the railroads obtain an adequate return believe there should be greater flexibility in the making of rates than they contend is permitted by the section in question. There will be considerable sentiment in the next Congress for resentiment in this section, outside of the so-called progressive element.

State Commissions Still Militant

It is not expected that the state commissions will be as militant as heretofore in demanding restoration of their powers. They are on record as against the rate making section. They also want their powers over intrastate commerce more clearly defined, but the way in which the Interstate Commerce Commission had handled the intrastate rate situation since its power was defined by the Supreme Court in the Wisconsin intrastate rate case, has taken some of the fire out of the state commission's opposition. They recently appealed to the commission for a statement showing that there was much for the state commissions to do, even under the Supreme Court's interpretation of the Transportation Act, with the regulation of intrastate commerce—and the commission said there was.

In their fight in the intrastate rate cases which followed the general rate increases of July, 1920, the state commissions had practically contended that they would be obliterated if the position taken by the Interstate Commerce Commission were sustained. Some states took this declaration literally and proceeded to consideration of legislation abolishing their state commissions. It was then that a call for help was sent to the Federal Commission which issued a statement showing clearly that the state commissions had not been deprived of their coveted powers in many respects. In brief, the position of the Federal Commission, sustained by the Supreme Court, is that it may step in and fix intrastate rates only when state commissions attempt to fix large bodies of rates below the level of interstate rates so as to place an undue burden on Interstate Commerce.

57,000,000 Americans Are Owners of American Roads

By HUGH FARRELL,

Advocates of "public ownership of the railroads" overlook one important fact and that is the fact that the public or a majority of the public already own the railroads. Conservative estimates based on comprehensive data place the number of persons interested in American railroad securities at 57,000,000, a majority of the population of the country.

Eight hundred thousand or more of these holders of railroad securities are direct owners, the remaining 56,000,000 or so being holders through their joint ownership of mutual savings banks and insurance companies and their interest in the investments of various trusts, running from corporate trust companies to corporate insurance companies and banks which have invested the funds entrusted to them in railroad securities.

Mutual insurance companies and savings banks alone own nearly 75 per cent of all the railroad bonds outstanding in this country and something like 25 per cent of all the railroad stocks. The mutual savings banks hold nearly a billion dollars of these securities, the corporate savings banks much more. But there is no difference between the public interest in the holdings of mutual savings banks and its interest in the holdings of corporate savings banks. The great assets of both which are invested in these securities belong directly to the depositors.

Injury to Depositors

Anything that affected the value of railroad securities would hurt the depositors in corporate savings banks just as much as it would hurt the owners of the mutual savings banks. The same thing would be true of insurance companies, of trust companies, of the commercial banks, which now hold a very large interest in railroad securities. The holdings of charities, foundations, the universities, and the hundred and one other institutions and organizations in which the public is directly interested would also be affected.

The devaluation of railroad values so blithely and innocently proposed by Senator Smith Wildman Brookhart would precipitate a panic in railroad securities that would wipe out a great part of the savings of years of 57,000,000 people. Every institution and every direct holder of these securities would in that event attempt to "unload" before the devaluation could be put into effect and the result would be even more destructive of values than the devaluation plan itself.

Security values are like water in more ways than one; they seek their proper levels under normal conditions and they run wild when subjected to abnormal conditions. Let an earthquake destroy the bed of a river and the river will sink without a trace; let some similar catastrophe erupting from legislative halls destroy the bed of confidence upon which security values flow and they will drop through the earth also.

Few or none of us can acutely realize the interest we have in such indirect things as the assets of a savings bank in which we place our savings or in those of an insurance company in which we also place our savings.

Feeling of the Individual

A savings bank, even a mutual savings bank, is a place in which we deposit cash, and from which we expect to draw cash when we are ready to do so. We have the same feeling about insurance companies, we pay cash, and we expect cash in settlement when the time comes. We all know, in a vague sort of way, that the assets of insurance companies and banks, and the hundred and one other institutions in which we are interested consist of investments in railroad and other securities, but it never seems to get home to us that these investments have been purchased with and represent the cash which we have paid into the institutions in the form of savings, deposits, insurance premiums and the like, and that we cannot hope to get back what we put in if the securities held by the institutions lose their value or become too greatly depreciated.

Most institutions of this kind maintain reserve funds for the purpose of protecting depositors and policyholders against ordinary fluctuations in the values of securities, but no institution has a reserve sufficient to withstand the effect of a financial calamity.

We do not realize our interest in and ownership of the assets of these institutions when everything is running smoothly but we would very soon realize where we stood if such a calamity as an arbitrary devaluation of securities should strike them. A depreciation of 25 per cent in the values of the assets held by most of the institutions of this country would throw them into bankruptcy, and force a liquidation of securities on an unprecendented scale and that liquidation would result in a fur-

ther depreciation of values, for securities can not be sold unless there are buyers and there would not be enough buyers in all the world to take in one lump securities to the value of even $5,000,000,000 without serious impairment of values.

A Suppositious Case

Let such a calamity befall the country and then let the depositor in the savings bank who does not realize that he is the owner of railroad securities go to his bank and demand the return of his savings. Things would never get that far, of course, for the bank would have been forced to suspend long before the depositor realized what was going on. We know what bank runs are, or some of us do. We don't have them any more because the bankers of the country have learned how to prevent them and to protect sound institutions which suffer a momentary loss of public confidence. But the occasional bank runs we do see these days give us furiously to think about what would happen if the confidence of the entire country in all the multitude of banks and institutions in this broad land were destroyed at one blow.

Senator Brookhart's devaluation plan is based on the contention that at some time a few years ago all of the securities of the American railroads could have been bought in the open market for considerably less than the $19,500,000,000 tentative valuation placed upon them by the Interstate Commerce Commission—a valuation which is daily receiving approximate confirmation at the hands of experts who have actually weighed and measured the physical assets of the companies concerned. I wonder if Senator Brookhart knows that on his basis of calculation half of the insurance companies and savings banks of the country were insolvent for at least two or three years during the war and post-war period.

Panic Was Avoided

The loss of values incident to the immediate effects of the war did not cause a panic or result in any legal insolvency for the reason that the public officials and officers of the companies concerned realized that values would recover, and met the situation by changing the basis of valuation so far as the holdings of insurance companies were concerned from a system of valuing according to market prices to one of valuing according to arbitrary standards set up for the purpose of preventing technical insolvency and enforced liquidation.

This method of preventing a collapse could not be employed to meet the situation that would result from actual devaluation, for its use in the instance referred to was justified on the ground that the depreciation in values was temporary and artificial and would disappear as soon as normal conditions returned. Senator Brookhart's devaluation would be permanent and final, with the result that panic to unload would ensue.

The point, however, is that Senator Brookhart is using a measure of valuation in arriving at his basis for valuing the railroads that was rejected by the insurance commissioners of all the states in the Union when they came to consider the actual value of railroad securities in connection with their duty of determining if the insurance companies over which they had supervision were solvent and worthy of the continued confidence of the people. If he succeeds he will at least have helped the people of the country who own interests in the railroads without knowing it to realize their ownership.

Senator Brookhart belongs to a school of opinion which holds that the "interests" own the railroads. By the "interests" they mean the investment and so-called "international bankers." Now bankers are "international" for the same reasons that a steel maker or a farmer is international: bankers are merchants and like the steel man and the farmer must look to the markets of the world for customers. Investment bankers do not buy railroads or other securities for personal investment, they buy them to sell again; just as a shoe dealer buys shoes, or a grocer buys sugar or coffee.

Except when they get "stuck" with an issue, that is buying securities at a price higher than they can sell them for, investment bankers are never the owners of any considerable interest in railroad or any other securities. The very rich men who happen also to be bankers or to be interested in banks have parts of their personal fortunes invested in railroad securities, but the banking houses as such do not buy securities for investment, they buy them to sell again. Their representation on railroad boards which has been cited as evidence of control by bankers is for the purpose of protecting the interest of those to whom the bankers have sold the securities of the railroads on whose boards they have places.

The investor expresses his confidence in the banker when he buys a security "put out" by that banker and it is to the banker's interest in the maintenance of the clientele of investors upon whose good will his business is dependent to see to it that the railroads or other issuers of securities live up to the promises made and implied in the bond. Investment bankers are experts in these matters; they are the best possible representatives that the investors could have on the railroad boards, and so long as they leave the actual operation of the railroads to the executives and specialists in that field, their representatives on the board, this gives the best assurance to be had that the investments of the 57,000,000 people who own the railroads of this country will remain safe and sound.

"Will It Work?" Answers to Federal Ownership Plea

By CHARLES NORMAN FAY

The crucial question as to Private vs. Government Ownership of Railways, Coal Mines, etc., is the final question. "Will it work?" And the answer is supplied by the answers to two further questions. "Can it possibly work?" "Has it ever worked?" For there is no moral reason, in a democracy, why government should not own and operate everything, from the giant ocean liner down to the baby's bottle, provided such ownership can reasonably be expected to work out for the greatest good of the greatest number, while there is every political reason for at least trying the experiment of it.

From the moral standpoint, government of the people, by and for the people, by majority vote, means the man-power to carry the will of the majority into effect, with or without minority consent; plus the acceptance of that fact by the latter. Such is the rule of the game: and if the majority say "We are dissatisfied with laws that protect private property, under which one man can get and keep more than another, perhaps more than a thousand others—We want no more Fords or Rockefellers—We propose that all of us shall take over and own everything imperishable in this country, in the person of our chosen government; and that it shall deal out to each of us his equal share of the perishables produced by us all, so that all shall be well off and happy, and none of us have to envy another" how can the minority ignore that decision, except at their own peril? What appeal can there be from it, except to the majority to change its mind?

As for political considerations, they are all in favor of Government ownership; that is why the issue so persistently thrusts its ugly mug into party politics and platforms. No weapon lies so handy to the demagogue's hand, no bid which can make for the popular vote is so seductive, as the triple appeal to our vanity—that every one of us is as good as Rockefeller; to our jealousy—that every one of us works as hard and deserves as much as Rockefeller; and to our cupidity—that if, being in the vast majority, we stand together to take the riches of Rockefeller and his like, we shall all be comfortably off, with no multi-millionaires to lord it over us.

David and Goliath Again

These are political considerations of the first potency, for the building of parties and platforms by LaFollette and Brookhart, and Gompers and Lewis, and their kind. Envy, jealousy and cupidity of riches and power have been fateful political forces throughout all history. There stands up to meet this giant of moral and political emotion, this Goliath of government ownership, only the Young David of common-sense, of economic reason, armed with the Old Testament smooth, round stone of justice; or if you will, of fact—the record of human nature as shown in history. Can that stone be slung, and sunk deep into the forehead of our national conviction, I wonder?

The hard, solid fact is that men are not equal in power or production; that they are never satisfied, nor in justice ought to be satisfied, with equal division of unequal contribution to the common wealth; and finally, that the greatest of them have never been able enough to run even the government of nation, state or city—to say nothing of its countless industries—to perfection; nor with economic success at all comparable to that of private enterprise. The strength of man is limited, and the value of human organization is limited with and by it. No man, no government, can do everything. The phrase is the merest commonplace of human experience.

"But," says the Collectivist, "no one wants government to do **everything.** All we are after just now are a few big things—the railroads, coal mines, packing houses, etc. A lot of them are run by big corporations now; by Armour and Rockefeller and Morgan. All government need do is to take them over bodily and run them just the same; only give us all a share in the profits."

The Collectivist, however, merely begs the whole question of profits. That is what President Wilson probably did when he gayly started the United States into the shipping business just before we got into the World War, with a fifty million dollar nibble at the shipping bait, and sunk three billions of good money in dead failure in the next two years. Profits were what he and McAdoo probably dreamed of when they took over the railroads and in a few short months changed a net earning of $2,500,000 a day to a net loss of the same amount, sinking two billions more. Profits may have been in mind when they took over the telephone and telegraph and sunk another twelve millions in the former alone in about as many months. Then there were machine gun, airplane and nitrate ventures, all to head off private profiteering in war in-

dustries, that sank perhaps a billion more. "But," our Collectivist will say, "that was in a war emergency—no criterion there."

Very well; let us go back to the first half of the last century, to railroad, canal and banking ventures of the states then and later, in the piping times of peace. Many of the states, for instance, went into railroad and canal development around 1840. Every one failed and sank the taxpayers' money. Some of them issued and repudiated their own bonds and have never paid them to this day. Yet private ownership took over and conducted profitably the bankrupt undertakings, in nearly every case, I think. The Dakotas have lately gone into banking and warehousing, at the tax payers' expense, and are not yet out, I believe.

Or look abroad. The French government has owned and operated at a loss, ever since the downfall of the last empire, some of the French railways, right alongside of privately owned roads run at a profit. The Italian railways have been a drag on the taxpayers for years, and are now said to be for sale to private ownership by the Mussolini government. The Austrian railways are likewise to be unloaded by the government in the reorganization of that unfortunate country's affairs, as a liability rather than an asset. The German railways, which have always been vaunted as an instance of governmental success in business, are cited as drawing heavily on the public treasury, now that democracy instead of autocracy is at the helm of railway steering. There is talk of denationalizing them.

In Soviet Russia the railways, which under imperial control were a heavy burden, have gone with all capitalism to rack and ruin, but the Russian people do not seem to benefit thereby. Perhaps it is unfair to LaFollette and Brookhart to cite the case of Soviet Russia; because it has had but five years in which to change human nature and reverse all natural and economic law, and La Follette may say that time is too short. If he did, he would be entirely justified. As far as a few thousand years of history tell the story, it may well take all eternity to change human nature and economic law—which last is merely human nature applied to the use of property. I am not a well read economist or historian, and do not pretend to speak by the card; but the following general statement seems to me safe.

Individual Effort Creates

The vast mass of the wealth of the world has been created by individuals under stimulus of private ownership. A very small fraction of it has been taken by government from us operators by means of taxation. The fraction so taken has been maintained, extended somewhat, and operated, usually at cost of further taxation; seldom out of profits from increased service to the public at reduced charge as with private undertakings. To sum up, government takes money out of everybody's pocket; but puts it into nobody's.

Many socialistic and communistic experiments in private industry have been made, in many lines, many lands and many ages. Substantially none have taken deep enough root in human society to survive and propagate their their kind., as an effective mode of creating and distributing wealth. The same human instinct that makes govenmnet ownership and operation a failure, namely; that what is everybody's business in nobody's business, has in every recorded instance been the wrecker of communistic ownership and operation. Even in agriculture progress seems blocked by communism.

The richest nations, those where the lowest classes of workers enjoy the greatest prosperity and highest standards of living, are precisely those where private ownership is best protected by law, and individual fortunes are greatest. In the United States, with our Armours and Rockefellers we have the happy hunting grounds of the poor, of the working folk from all the world. They come to us because where there is private ownership and great capital, there are also work and wages.

Furnishing Pullman Service For Ubiquitous American

By J. KEELEY
Of the Pullman Company.

"Pullman Service," accepted by the public as one of the pillars of American daily life, involves not only tremendous financial operations, but housekeeping details of which the public has little knowledge. For instance, the Pullman Co. probably is the largest patron of laundries in the country. Last year over 300,000,000 pieces of Pullman property went through the wash tub and the wringer.

Last year the Pullman car mileage totaled 821,349,785 miles, an hourly average of 93,761 miles; and an average each sixty seconds of 1,562 miles. The distance traveled was equivalent to encircling the earth at the equator ninety times each day.

The function of the Pullman Co. is that of a reservoir from which the railroads and the public draw. Its ability to meet demands for service is not only one of the chief factors in the excellence of American railway travel, but also a factor in cutting down the cost of travel. If the railroads had to supply their own sleeping cars there would be at least double the capital invested in cars, and the railroads would have to have a reserve force of trained employes. It costs the Pullman Company $100 to train a conductor, and over $50 to give a porter the elementary instructions as to hs duties.

American Traveler A "Bird"

The American traveler is a seasonal bird of migration. There are in each year four travel peaks and in the valleys of inactivity between the periods of great activity hundreds of cars are idle and unproductive. At the close of the 1922 fiscal year the average number of cars operated was 5,666 each month, and the monthly peak in June, 1922, was 81.4 per cent of the cars owned. But there are times when everything on wheels that can roll is pressed into service by public demand.

During the period of greatest depression in travel a fraction of over 30 per cent of Pullman cars are on side tracks, and even in June, 1922, the peak month, there was an estimated spread of approximately 939 cars between the high and the low day in that month. The Pullman Co.'s supply of cars has more than kept pace with the increase in population. In 1901 there was one Pullman car for each 23,521 inhabitants of the United States, and in 1920 there was a car for each 13,697 persons. The population of the United States increased 39 per cent between 1901 and 1920, while the number of Pullman cars increased 139 per cent and the passengers carried as between those two years increased 324 per cent.

In the shops of the Pullman Car Works in Chicago, among the relics which tell the story of the rise and progress of transportation, there stands in honorable retirement a quaint old coach known by the simple designation of "Old No. 9."

It is the first Pullman sleeper which George M. Pullman evolved in his experiments to produce a standard sleeping car that would serve the public and add to its comfort while traveling.

Comfort of Modern Pullman

Crude and uncomfortable it was when compared with the accommodations afforded by the Pullmans of today. There are four sections in the old car, and the upper berths are hauled into position by an arrangement of ropes and chains primitive to the extreme. Wood stoves furnished the heat, such as it was, and the weary traveler must have burned on one side and frozen on the other as thoroughly as did the householders of the era of open fireplaces.

A lone wash basin situated in plain view of all the occupants of the entire car was in keeping with the other inadequate toilet facilities. "Sage brush" plush of the stifling warp of years ago bedecked the seats.

"Old No. 9" had mattresses, of a kind, with pillows and blankets. There were no sheets. But it served its purpose and it proved George Pullman's contention that a coach could be built that would afford real sleeping quarters and offer a semblance of a bed where before day coaches alone furnished their all-too-narrow seats for the benighted railway patron.

In striking contrast with "Old No. 9" are the Pullmans of today. Their evolution has been gradual, so gradual, in fact, and so evident that it sometimes appears as if few American railway travelers of today realize what steadily increasing comfort has been furnished the mby Pullman cars.

George M. Pullman a Cabinet Worker

George M. Pullman was a cabinet worker before he branched out as a building contractor in Chicago. In 1859, in that city, he proceeded to work out the idea of a sleeping car. Two old coaches were procured by him and re-

modeled. In 1865 the first Pullman sleeping car was introduced, and was put into service on the Chicago & Alton road. This car, called the Pioneer, was a foot wider and two and one-half feet higher than any in use. It was necessary to alter all of the station platforms and elevate several bridges before it could be used.

Today, there is not one part of a Pullman standard sleeping car, or a parlor car for that matter, that is the same as in 1859. Steel construction is employed throughout, and the old wooden sides are almost extinct. The gingerbread mohogany fittings of the ancient regime have passed. Seats, bunks, partitions—all of the interior, in fact—are of steel; but the imitation is so skilfully done that many passengers believe them wood. Steel cars reduce travel hazards.

Fundamental principals remain, to be sure, but each has been subjected to constant improvement. These changes are gradual. They are tried and approved before they are adopted. So, with an almost continuous improvement, a little bit at a time, your traveler accepts his added comfort and safety as a matter of course and often fails to note it.

"Lawrence Chair" Born of Parlor Car Debate

The standard parlor car chair is an excellent example of this. Some nine years ago a group of men were traveling from New York to Boston on the Knickerbocker Limted, the crack daylight train of the New York, New Haven & Hartford railroad. That train was composed, in its entirety, of parlor cars and diners. A debate arose as to whether the maximum of comfort in parlor car seats had been attained.

One of the travelers, a Mr. Lawrence of Boston, led the negative side. The upshot of the discussion was the appointment of a committee to look into the matter. They were to design a perfect chair and present their plans to the Pullman management. There were many more trips. On one of these, a Boston artist was taken to sketch the attitudes assumed by parlor car patrons.

The investigation resulted in much intersting data. Complaints of discomfort depended upon the physical proportions of the individual. The skinny lady declared that more springs and cushing were required. The fat man said there was too much. The short girl found them "uncomfortably high," and the gangling youth thought "they ought to be a leetle might taller." So it went.

Out of this mass of disputation, the committee worked a table of averages. From this the new chair car seat was born. It was labelel "the Lawrence chair," in honor of the gentleman who played so important a part in its evolution, and it is in use today.

Which is just one example of how comfort for the traveling public is secured and how the Pullman Company has set about it.

Not infrequently some earnest disciple arises and demands improvement in Pullman equipment. The European sleeping car, with its semi-privacy, is cited as the proper coach to replace the standard sleeper. It is an odd fact that the Pullman Company has built cars of this type and has sought to introduce them. They have never been accepted.

The European sleeping car—which, by the way, is the invention of Colonel W. D. Mann, an American—has compartments with sidewise berths, each two compartments sharing one toilet. Naturally, the cost is more. The traveling public—possibly because of this, or it may be because Americans naturally are gregarious—refused them; and after a thorough trial the experiment was abandoned and the work of improving the present form of car was continued.

As a matter of fact, the Pullman compartment is better than any of the European type, containing more room and individual toilet facilities, to say nothing of admittedly superior construction. The Americans using compartment cars constitute a small percentage of the general public, even on the crackerjack highest extra fare trains, as an observant traveler may note for himself.

As the human equation enters into the question of seat comfort, so, too, it plays a big part in the matter of sleeping equipment. The Pullman mattress is made to order from the finest horsehair obtainable. The pillows are stuffed with selected goose feathers. The best of wool goes into the making of the blankets. But the Pullman sleeper wends its way through all climes in all seasons. An average must be struck to meet all possible emergencies. Sixty-three years have been utilized in striking that average and the experiment continues daily.

Figures on Pullman Housekeeping

Here are some striking figures regarding what might be called Pullman housekeeping. In 1921 the Pullman Co. purchased the following.

Sheets	376,246
Pillow slips	462,341
Towels	1,035,925
Porters' white coats	50,662
Tidies	27,964
Head rest covers	32,528
Buffet table cloths	11,942
Napkins	30,419
Blankets	13,954
Toilet soap (cakes)	2,531,808
Liquid soap (gallons)	113,640
Matches (boxes)	2,587,536
Toilet paper (rolls)	520,800
Drinking cups	64,755,000
First aid packages	24,740
Hat bags	1,645,200
Hat brushes	3,300
Hair brushes	51,804
Combs	146,190
Tumblers	1,380

More than 4,000 men and women are employed daily cleaning Pullman cars in every section of the United States, in Canada and Mexico. They sweep and by vacuum process, blow out cinders and dirt and inhale the dust on seats, cushions and mattresses, and wash, scrub and polish. The exterior of the car is treated with a mild solution of oxalic acid. The surface is then glossed with an oil preparation.

Mattresses and blankets are given air and sun baths and later cleaned by vacuum. Fumigation of a car takes place at stated intervals, and the odorous but efficient formaldehyde gas renders the existence of germs and vermin an impossibility.

The drinking water tanks are steam sterilized and, contrary to popular opinion the ice is not placed in the water. The coils through which the water runs are iced.

There is nothing haphazard about Pullman car cleaning. Every car has its own complete bookkeeping system on cards, showing when its was last cleaned, partially or thoroughly; when fumigated, when tested for electrical efficiency and for fire apparatus.

Ventilation System Develops

The present system of ventilation of Pullman cars is the result of over 5,000 measurements of air currents and analyses of air, in occupied berths and in the body of the car, made by Dr. Thomas R. Crowder, the Pullman chief of sanitation and surgery. The theory of ventilation developed by this exhaustive study has been put into practice in all Pullmans and in many railroad and street car coaches throughout the country.

A forward step in medical service in the Pullman organization is now being taken through the installation of the latest complete first aid kits on all its cars and in the yards and works, and the giving of first aid instruction to various classes of employes. Starting with the district yard forces, the training will rapidly be extended to include the conductors and porters, and eventually will embrace nearly half the 34,000 employes. Fortunately, there are few accidents on Pullman cars, but emergencies will arise. The Pullman company has had first aid kits on its cars for more than a decade, but never before has it attempted to educate its operating staff. The steel container in each car has two first aid packages with sufficient sterile dressing material to prevent any ordinary wound from contamination, and bandages to fix the dressings in place. There are also being added small ampoules of iodine and a bottle of aromatic spirits of ammonia to be used as a harmless heart stimulant.

Carelessness of Passengers

Because of the carelessness of many passengers in throwing safety razor blades into towel racks and on the floors, the Pullman Co. is installing a receptacle for the discards. Scores of porters have had their hands badly cut by unwittingly seizing the blades when pulling soiled towels from the rack, and car cleaners have had similar painful accidents by encountering the blades on the floors and in the seats.

The standard sleeping car contains approximately 165 lineal yards of friezette plush, this plush being finally adopted as the most cleanly and durable after many years of experiment. Yearly renewal averages 99,000 yards of this material.

Each Pullman standard sleeping car contains 91 yards of mohair berth curtains, 105 square feet of leather, and 68¾ yards of carpeting. In the pioneer days of the Pullman car the curtains were of canvas on which were painted green fields and lush meadows, castles in Spain and ships on the raging main. But these, though in those days they were considered artistic, proved cumbersome and warm. Curiously enough, though, canvas duck curtains, dyed green, were in use on some cars during the World War because of the shortage of modern mohair.

Following the original canvas came curtains of heavy wool, then again a form of tapestry. These did not hang well, among other bad points, and finally there came the mohair, a material as light as is compatible with privacy to the berth occupant.

Contents of a Sleeping Car

180 Sheets	15 Deflectors
140 Pillow Slips	10 Head Boards
240 Towels	1 Sash Raiser
56 Blankets	1 Match Safe
28 Mattresses	1 Deodorizer Jug
56 Pillows	1 Deck Sash Opener
26 Hammocks	2 Dozen Candles
18 Berth Curtains	17 Spittoons
13 Spring Beds	3 Tables
6 Bags	2 Ladders
1 Berth-value Key	1 Dust Pan
1 Camp Stool	1 Mop
2 Number Holders	1 Vacuum Cleaner
26 Head Rest Covers	1 Ice Tongs
1 Broom	1 Thermometer
6 Candle Holders	1 Wrench
2 Buckets	1 First Aid Holder
1 Step Box	1 Shoe Holder
38 Screens	

With the absorption by the Pullman Company of the Haskell & Barker Car Co. of Michigan City, Ind., in January, 1922, the manufacturing facilities of the Pullman Co. were largely increased. Today the combined plants consist of over 150 buildings served by more than 100 miles of tracks within the shop enclosures, which embrace an aggregate area of 600 acres. The maximum monthly output capacity amounts to 3,500 new freight cars, 375 repair freight cars, 125 passenger cars, 15,000 car wheels, 1,250 tons of malleable castings and a substantial tonnage of forgings. There are approximately 13,000 men on the manufacturing payroll, and 22,000 other persons attend to the multifarious duties in the manufacturing and operating phases of the company's activity.

Transportation Act of 1920 Explained by Senator Cummins

By ALBERT B. CUMMINS
United States Senator from Iowa

THE briefest sort of outline of the physical character of our railway system on Jan. 1, 1918, will be helpful in understanding the difficulties with which we had to deal in preparing the legislation of 1920.

When the Government, in the last days of December, 1917, assumed the control and the operation of the railways, we had substantially 265,000 miles of main track road. It had been constructed practically without any supervision on the part of the Government. It was owned by substantially 900 separate corporations. Some of it was prosperous, some of it bankrupt, some of it in high state of development, some of it poorly built, poorly equipped and enormously overburdened with capital obligations, but practically all of it absolutely necessary for the tremendous traffic of the country, and to meet the needs of the several communities of the United States.

During the first six months of the year 1918 the Government returned to their respective owners something like 30,000 miles of this property, consisting mainly of what are ordinarily known as the short lines.

Cost United States $45,000,000 a Month

Under the Federal Control act of 1918, the President was authorized to contract for compensation for the use of the property so taken over and retained. The standard fixed for compensation was the average net operating income of the particular road for the three preceding fiscal years. This standard gave to some of the roads, in my judgment, a great deal more than they were entitled, and to some less than they were entitled.

The Government operated these roads for 26 months; it more than doubled the wages of employes and increased the rates of transportation 25 per cent. Its net loss for the entire period, assuming that settlements yet to be made are made upon the same basis as those already made, was at the rate of about $45,000,000 per month. The law provided and the agreements stipulated to return the roads to their owners at the end of Federal control in as good condition as they were when taken over on Jun. 1, 1918.

In 1919 the President notified Congress that he would surrender the roads on Jan. 1, 1920, but later modified his notification extending the time to March 1, 1920. It then became the duty of Congress to enact such legislation as was necessary, first, to wind up the affairs of the United States Railroad Administration, and second, as would enable the owners of these properties to give to the people of the country the transportation service which their business imperatively demanded.

It will be remembered that the railroads were being returned to their owners with an average monthly deficit of substantially $45,000,000 per month. And, also, that for six months before the return applications had been pending before the Director General for a further increase of wages amounting in the aggregate to $800,000,000 per year. It was well known that all or a large part of this increase would be granted, and, in fact, when the applications came to be heard by the United States Railroad Labor Board increases in wages were granted, on July 20, 1920, amounting in round numbers to $650,000,000 per year. It is well to recall at this point that when the Government took over the railroads it took over all their cash balances.

Under these conditions Congress continued what is known as the standard contract for six months; under which the Government contracted to pay to the railroads which applied for it in apt time, the compensation which was paid during the 26 months prior to March 1, 1920. It was also agreed by everyone that the railroads would be compelled to borrow immediately immense sums of money to rehabilitate their several properties, for while the Government maintained some of them in reasonably fair condition many of them had been neglected and the equipment especially required the most extensive repairs. We all knew that the credit of even the soundest companies had been seriously impaired, and that it would be impossible for the best of them to borrow money in the immediate future at less than 7 per cent.

Tranportation Act Passed

This is an outline of the situation, and to meet it and do all that could be done to make it reasonably certain that the railroads would continue to render the service upon which the welfare of the people of the United States absolutely depended Congress passed the Transportation Act, 1920.

I refrain from further discussion of the infinite details of this important measure and proceed directly to the consideration of those parts of the Act which affect freight and passenger rates, asking that it be borne in mind that if rates had not been increased the railroads as a whole would have incurred after Sept. 1, 1920, for a time at least, a monthly deficit of $100,000,000, and this upon the assumpton that nothing had been expended for extraordinary rehabilitation.

If additional revenues had not been provided every railroad in the United States would have been in the hands of a receiver before Jan. 1, 1921, and our system of transportation would have been practically destroyed.

It is, I think, generally admitted that many of the advocates of the Government ownership and operation of these utilities, opposed the Transportation Act hoping that the continuance of existing conditions would bring about that result, and I agree that it would have done so.

It is not my intention to inquire into the desirability or wisdom of Government ownership and operation. I limit my comment upon that subject to just one remark. It is this: That if we are to have public ownership of the railroads it ought not to be effected by first physically destroying the efficiency of the facilities of transportation. If there is to be a change in our policy in that respect it can be and ought to be accomplished through constitutional methods, and without subjecting the people to the almost infinite loss that they would suffer if deprived for any considerable period of adequate means of transportation.

Increase in Freight Rates

I approach now the specific objections which many people and particularly many powerful agricultural organizations have made and are making against the transportation act. It is claimed that the act is the direct cause of the high freight rates which were established on Aug. 26, 1920, and which have been and are so burdensome upon industry.

For reasons which are not pertinent to this discussion, farmers' productions went down in 1920 to pre-war levels or below, and at the same time freight rates were increased to a higher level than ever before. This conjunction of two extraordinary events was the severest blow that ever fell upon any industry, and it is not strange that their efforts to escape the disaster commanded all their thought and energy, and it may be that their extreme trials clouded their judgment when they came to inquire into the cause of their misfortune.

The high freight rates which have oppressed all the people and the farmers particularly are not due to the transportation act of 1920, but to other causes over which the Government neither had nor has the least control.

I go further and assert that in all probability freight rates would have been higher without the transportation act than they are under it.

If I can make good these assertions, the storm that has been raging against this measure ought to disappear and we ought to turn our attention for relief in other directions.

In presenting this phase of the subject I ought immediately, and as a premise to all that I may say upon it, to declare that I believe in law and order. I believe that the Constitution ought to be respected, and that the decisions of the Supreme Court of the United States in construing the Constitution must be accepted not only by Congress, but by all the people. We can amend our Constitution, and have done so many times, but to disregard and defy its provisions, if it were possible to do so, is destructive of every principle of organized society.

Rate Section Explained

I ask unprejudiced attention to that part of the transportation act which it is claimed has had the effect of unduly, unreasonably and unjustly increasing freight rates. I quote the first four paragraphs of section 422, which added section 15-a to the Interstate Commerce Act.

"Sec. 422. The Interstate Commerce Act is further amended by inserting after section 15 a new section to be known as section 15a and to read as follows:

" 'Sec 15a (1) Whn used in this section the term "rates" means rates, fares, and charges, and all classifications, regulations, and practices, relating thereto; the term "carrier" means a carrier by railroad or partly by railroad and partly by water, within the continental United States, subject to this Act, excluding (a) sleeping-car companies and express companies, (b) street or suburban electric railways unless operated as a part of a general steam railroad system of transportation, (c) interurban electric railways unless operated as a part of a general steam railroad system of transportation or engaged in the general transportation of freight, and (d) any belt-line railroad, terminal switching railroad, or other terminal facility owned exclusively and maintained, operated, and controlled by any state or political subdivision thereof; and the term "net railway operating income" means railway operating income, including in the computation thereof debits and credits arising from equipment rents and joint facility rents.

" '(2) In the exercise of its power to prescribe just and reasonable rates the Commission shall initiate, modify, establish or adjust such rates so that carriers as a whole (or as a whole in each of such rate groups or territories as the Commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation; Provided, That the Commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable, and to prescribe different rates for different sections of the country.

" '(3) The Commission shall from time

to time determine and make public what percentage of such aggregate property value constitutes a fair return thereon, and such percentage shall be uniform for all rate groups or territories which may be designated by the Commission. In making such determination it shall give due consideration, among other things, to the transportation needs of the country and the necessity (under honest, efficient and economical management of existing transportation facilities) of enlarging such facilities in order to provide the people of the United States with adequate transportation: Provided, That during the two years beginning March 1, 1920, the Commission shall take as such fair return a sum equal to 5½ per centum of such aggregate value, but may, in its discretion, add thereto a sum not exceeding one-half of one per centum of such aggregate value to make provision in whole or in part for improvements, betterments or equipment, which, according to the accounting system prescribed by the Commission, are chargeable to capital account.

"(4) For the purposes of this section, such aggregate value of the property of the carriers shall be determined by the Commission from time to time and as often as may be necessary. The Commission may utilize the results of its investigation under section 19a of this Act, in so far as deemed by it available, and shall give due consideration to all the elements of value recognized by the law of the land for rate-making purposes, and shall give to the property investment account of the carriers only that consideration which under such law it is entitled to in establishing values for rate-making purposes. Whenever pursuant to section 19a of this Act the value of the railway property of any carrier held for and used in the service of transportation has been finally ascertained, the value so ascertained shall be deemed by the Commission to be the value thereof for the purpose of determining such aggregate value.' "

Rules of Rate Making

It will be noted that during the first two years of the operation of the act, namely, until March 1, 1922, the Interstate Commerce Commission was directed to take as a fair return 5½ per cent upon the aggregate value of the railroad property, and that, in its discretion, it was authorized to add one-half of 1 per cent to make provision in whole or in part for improvements, betterments and equipment, which, according to the accounting system prescribed by the commission, are chargeable to capital account.

This means, of course, that not more than 5½ per cent could be raised for distribution either as interest upon bonds or dividends upon stock. It is to be observed, first, that this proviso of paragraph 3 of the section expired on March 1, 1922, and is not in any manner responsible for the rates which now prevail. I do not, however, say this in apology for it. It is absolutely sound economically. It is in no sense a guarantee. It is simply a declaration by Congress that in its judgment a return of 5½ per cent would meet the constitutional requirement that private property shall not be taken for public use without just compensation.

The period immediately followng the transition from Government operation to private operation was chaotic, and it was believed that this rule of rate-making would have the double effect of steadying the credit of the railroad systems, which were in complete disorder, and at the same time bar the insistence upon the part of the railroads that in vew of the high interest rates which they were compelled to pay and the reduced purchasing power of money when applied to both labor and material, for a higher rate of return.

Statute Met Needs

In my judgment, it fulfilled both these purposes, and it enabled the railroads to render the service without which all business would have been paralyzed. I repeat that it is not a guarantee, as at once must be admitted when it is remembered that during the year 1920 the net operating income of all the roads was less than one-third of 1 per cent, and during the year 1921 and the first two months of 1922 the net operating income of all the roads was substantially 3 3-10 per cent, and no one contends or has ever suggested that the Government is under any obligation to make up the difference between the actual net earnings of the railroads and the 5½ per cent.

With this statement for the period ended March 1, 1922, let us examine that part of the law which is permanent in its duration. The statute as now in force provides:

"In the exercise of its power to prescribe just and reasonable rates the commission shall initiate, modify, establish or adjust such rates so that the carriers as a whole (or as a whole in each of such rate groups or territories as the commission may from time to time designate) will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn an aggregate annual net railway operating income equal, as nearly as may be, to a fair return upon the aggregate value of the railway property of such carriers held for and used in the service of transportation: Provided, That the commission shall have reasonable latitude to modify or adjust any particular rate which it may find to be unjust or unreasonable, and to prescribe different rates for different sections of the country."

Declaration of Constitution

In every respect save one the paragraph just quoted is the declaration of the Constitution as construed again and again by the Supreme Court. That Court has many times announced that a rate or body of rates prescribed by a Congress, a Legislature, or a Commission which does not allow a fair return upon the value of the property which renders the service is confiscatory and unconstitutional. It has more than once set aside a body of rates which allowed a greater rate of return than the railroads have received since Sept. 1, 1920.

It is quite possible to perceive the justice of a criticism upon this part of the law for it is nothing more than an accurate repetition of the Constitution and the repeated decisions of the Supreme Court interpreting it. If the Congress had directed the Commission to do less than to adjust rates that would make a fair return, or if the Commission without direction had done less, the Act of Congress or the act of the commission would have been in violation of plain duty and the clearest commands of the Constitution.

The only new thing or element in the paragraph last quoted is the authority given to the Commission to consider what rates will produce a fair return upon the value of the railroads as a whole or in groups instead of considering the railroads singly; and I assert without the least fear of successful contradiction that this authority tends to decrease rates rather than to increase them.

More than 90 per cent of the transportation of the United States is competitive in its character, that is to say, that with respect to more than 90 per cent of the traffic the shipper has the choice between two or more railroads. It is apparent that for the welfare of the country substantially all our railroads must be sustained, and it has been the rule of the Interstate Commerce Commission for years to adjust rates upon competitive business accordingly.

This necessary practice required rates that might while giving to one competing railroad a meager return, give to another excessive profits. It must be manifest that if rates are fixed upon the basis of maintaining railroads which have a higher cost of producing transportation than some of its rivals the whole level of rates would be a great deal higher than if they are fixed upon the basis of maintaining the railroads as a whole.

Critics Abandon Fair Return Rate

It is this national or group principle that is introduced in the paragraph quoted, and it is this principle which in addition to the suggestion I have already made with regard to the rate of return, which sustains my assertion that freight rates would in all probability have been higher in its absence during the whole period since the transportation act was passed, than they have been.

Most people who think at all upon this subject agree that this reasoning is absolutely sound, and very few people claim that the rate of return fixed in the statute for two years as a fair return, or the rate of return since the expiration of the two years fixed by the Interstate Commerce Commission (5¾ per cent) is too high; and it would be difficult to find a man with a sane mind but who would claim that the rate of return actually received by the railroads is high enough to escape the condemnation of the Supreme Court, if the question had been submitted to that tribunal. The critics of the law have practically abandoned that part of their contention and have fallen back upon two other provisions which I will now consider.

It is said that the cost of the maintenance and operation of the railroads since their return to the owners has been excessive, and if these expenditures had been reasonable in amount the net operating income would have been greatly increased. Upon this point the committee on Interstate Commerce of the Senate of which I am chairman, has taken an immense volume of testimony.

If these expenditures have been extravagant the fault is not to be attributed to the law. If the facts alleged were proven beyond controversy it would furnish no reason for a repeal or modification of the statute. The transportation act in the paragraph to which I have so often referred provides for such rates as "will, under honest, efficient and economical management and reasonable expenditures for maintenance of way, structures and equipment, earn," etc. If we can not trust the Interstate Commerce Commission to perform diligently and faithfully its duties in this respect then our whole plan of regulation by the Government is a failure.

Having a somewhat intimate knowledge of the work of the commission, I am prepared to say that it has done everything in this regard that it could have done.

In any event, the criticism is not to be directed against the law and if there have been mistakes either of commission or omission in this respect they would have occurred in more serious form if the statute had not been enacted.

Railroads Not Overvalued

The last suggestion insofar as rates are concerned involves a subject upon which there has been more misapprehension and more misrepresentation, sometimes intentional and sometimes unintentional, than upon any other, grows out of the statement that the transportation act validates seven or eight billions of dollars of watered capitalization, and compels the people to pay a return upon seven or eight billions of dollars in excess of the actual value of the railroad property.

This charge is flagrantly and obviously untrue, but more honorable men and women have been deceived and misled by it than by any other part of the long continued campaign against the measure. The argument is, that even granting that the rate of return, whether designated by Congress or designated by the commission, is reasonable or less than reasonable, when computed upon a

value of $18,900,000,000, it becomes excessive, when computed upon a value of $12,000,000,000, the alleged market value of all railway stocks and bonds and that rates could be reduced even though the cost of maintenance and operation is not reduced.

The charge is accepted by great multitudes of the people without reflection because they know that there have been vast amounts of railway stocks issued without any consideration.

No one has insisted more vigorously than I have that this practice should come to an end, and finally in the transportation act it was brought to an end. Everybody knows also that beginning with the first railway construction a very considerable amount of the funded or bonded indebtedness was issued without consideration, and I am glad to say that this vicious financing cannot occur under the transportation act.

It is, however, a moral and economic crime to assert that because these things have been true that the railroad property of the United States which renders the service of transportation, taken as a whole, was overvalued by seven or eight billions of dollars by the Interstate Commerce Commission when it fixed the value for ratemaking purposes at $18,900,000,000.

If I cannot make this so plain that any intelligent human being can understand it, I will forever despair of establishing the simplest problem in railway economics.

Seven Years for Just Inventory

Let us first examine the provisions of the Transportation Act upon this subject. They are found in paragraph 4 of Section 422, which added Section 15a to the Act to Regulate Commerce. I quote it:

"(4) For the purposes of this section, such aggregate value of the property of the carriers shall be determined by the Commission from time to time and as often as may be necessary. The Commission may utilize the results of its investigation under Section 19a of this Act, in so far as deemed by it available, and shall give due consideration to all the elements of value recognized by the law of the land for rate making purposes, and shall give to the property investment account of the carriers only that consideration which under such law it is entitled to in establishing values for rate-making purposes. Whenever pursuant to Section 19a of this Act the value of the railway property of any carrier held for and used in the service of transportation has been finally ascertained, the value so ascertained shall be deemed by the Commission to be the value thereof for the purpose of determining such aggregate."

Under this paragraph and in a proceeding properly instituted, known as Ex Parte 74, the Interstate Commerce Commission found, on Aug. 26, that the railroad property of the United States was, as a whole, of the value of $18,900,000,000. This value was found mainly, if not wholly, under an act passed in 1913, and which now constitutes Section 19a of the Act to Regulate Commerce. Senator Robert M. La Follette, of Wisconsin, was the author of the measure and it was proposed and passed for the sole purpose of giving to the Interstate Commerce Commission a basis upon which to fix rates.

In 1920 the Commission had been engaged for seven years in making an inventory and assigning the values of both the real and personal property of the railroads, and had substantially completed its task. It disregarded all stocks and bonds or other indebtedness and viewed the property just as it existed; in fact, the amount of stocks and bonds which any company had issued absolutely immaterial.

How Railroads Were Valued

The commission looked upon the railroads as tangible physical property, no matter from what source the money creating it had been derived. It appraised the property precisely as one would appraise his farm with the buildings upon it or a town lot with its improvements. If there had been $100,000,000,000 of stocks and bonds issued by the railroad companies it would have neither added to nor taken from the value of the property itself.

The Supreme Court of the United States had definitely and finally laid down the rule of law for the ascertainment of the value of railroad property. It had declared in many cases that the value of personal property including all structures and improvements is the cost of reproduction less depreciation for age and use, and that the value of the real property or land was at least the value of similar areas of adjacent lands or lots with such additions as would represent the cost of acquiring the lands or lots for railway purposes. Proceeding in this way and in strict obedience to the Constitution and the decisions of the Supreme Court the Commission decided that the property was worth $18,900,000,000.

I may not agree, in fact I do not agree, that railway companies should enjoy the benefits of what is known as unearned increment, but the Supreme Court has decided that under the Constitution they are entitled to the increased value of land brought about by general growth and development, and Congress is powerless to change that decision, for the value of property and the elements which enter into that value are judicial and not legislative questions.

The Supreme Court has held that if a right-of-way is donated to a railroad company by the Government or by an individual the value of that property is to be considered in determining the value of the entire property of that company. This may seem to be unjust. I think it is unjust, but the Supreme Court says that the Constitution demands it, and as a law-abiding citizen and a law-abiding Senator I accept the conclusion. Property not used for transportation purposes is of course not included in the value upon which rates are based.

I have given what seems to me to be the material facts from which to draw conclusions upon the proposition I announced in the beginning, and very confidently I submit that no thoughtful man who desires to reach an honest conclusion can do otherwise than acknowledge that the transportation act which has been so furiously assailed is not the cause of the high rates, whether freight or passenger, which now prevail.

Bangor & Aroostook Taps Banner Farming Territory

By PERCY R. TODD

President Bangor & Aroostook Railroad

The Bangor & Aroostook Railroad Co. was incorporated in 1891, and taking as its nucleus about 90 miles of then existing railroad, it began the construction of its system into the virgin but fertile territory of northern Maine. During the next 20 years it completed about 550 miles of railroad, extending from tidewater at the mouth of the Penobscot River to the Canadian border at St. John River, with branch lines interwoven through the agricultural territory of Aroostock County and the timberlands of northern Maine. The company also operates an international bridge across the St. John River and a line to the famous Mooshead Lake. The principal connections are with the Maine Central Railroad at northern Maine Junction, with the Canadian Pacific Railway at Brownsville Junction and with the Canadian National Railways at St. Leonards, N. B.

Since the construction of the railroad one of the largest paper mills in the United States has been built at Millinocket, Me., and many large lumber mills supply the constant demand of the Eastern trade. In spite of the enormous shipment of forest products which this railroad has transported, northern Maine still has the largest stand of uncut timber east of the Mississippi River.

Aroostook's Great Potato Fields

The potato fields of Aroostook County are among the most famous in the United States. New England, New York and Pennsylvania are supplied with table stock and all of the potato growing district in the eastern and southeastern territory from Long Island to Florida procure their seed from Aroostook County, which produces the finest seed in the United States.

During the shipping season of 1921-22 this company transported 20,169,837 bushels of white potatoes.

In 1890 the population of Aroostook County was less than 50,000 and the value of its estates but $10,000,000. In 1922 the population has practically doubled and the value of the estates had increased to over $60,000,000.

In spite of hazardous and difficult operating conditions the operating ratio of the company has been remarkably low, and it has an unbroken dividend record since 1904.

The shops of the company are located at Derby, Me., at which point practically all repair work is carried on, and where over 1,000 freight cars have been wholly rebuilt during the last two years.

The question of the "open shop" is one that greatly interests the public at the present time and many efforts have been made by those opposed to the plan to show that it means not an "open shop" but a "non-union" shop; that this is incorrect is shown clearly in the case of the Bangor & Aroostook Railroad where the majority of the conductors, trainmen, station agents, telegraph operators and maintenance of way employes are union men, whereas the locomotive engineers, firemen and shopmen are non-union men and yet there is no railroad where the employes work more cordially together than they do on this road.

Transportation Institute Founded to Inform Public

By BIRD M. ROBINSON

President American Short Line Railroad Association

The National Transportation Institute has recently been organized, with general offices in Chicago, Ill. James R Howard, formerly president of the American Farm Bureau Federation, has been made president.

The President of the United States, leading Senators, Members of the House of Representatives, a majority of the Interstate Commerce Commissioners, the Joint Commission of Agricultural Inquiry of Congress, the National Agricultural Conference, and many leading national organizations have recommended and approved the establishment of the institute.

The object is to ascertain, through a competent, reliable and impartial organization, how and to what extent the public and its transportation agencies are, or will be benefited, or adversely affected by any policy or course of action that may be adopted with respect thereto, and to actually convey that information to the people in all sections of the country in a way that they can and will understand.

The by-laws provide that: The object of the National Transportation Institute shall be to conduct non-partisan and impartial investigation and research into every kind of transportation and the relationship of transportation agencies to each other and to agriculture, industry, finance, trade and commerce, and to disseminate the facts thus acquired to the public through the platform, press, educational institutions, motion pictures, and other available mediums, with the definite object of aiding the people of the United States in promoting, co-ordinating and maintaining the most efficient transportation facilities.

And that the institute shall not in any way become directly or indirectly the representative either of transportation agencies, producers, shippers, or of any special group or groups.

The sponsors for the institute call attention to the fact that the problem of adequate and economical facilities of transport is one of the great, if not the greatest, that confronts the American people, and is becoming progressively more important each year; that the public, for one reason or another, has gradually but definitely assumed more and more control of the transportation agencies, especially the rail carriers, until at present it actually has, without recognizing the fact, assumed responsibility for, and the burden of providing transportation; that it is without adequate information with reference to transportation, and that it has no source of impartial and unbiased information which the majority of the people will accept, when dealing with that problem.

Notwithstanding the great necessity for a full knowledge of the transportation problem upon the part of the people, we have no educational institutions devoted exclusively to that work, nor have we any national institutions conducted in an impartial and unbiased way, engaged in comprehensively ascertaining the facts about all kinds of transportation and conveying such information to the public.

We have hundreds of institutions of learning, colleges, universities and other technical institutions teaching the various professions and the fundamental principles of, and the facts with reference to, production of all things used and consumed; but we have no great institution devoted to the education of the public with respect to the fundamental principles, the facts about the transportation, and the agencies now, or which may be utilized for rendering that service—this, notwithstaiding the problems involving our transportation instrumentalities, are complex and are greatly complicated by a limited knowledge of the real facts. The result of the absence of adequate and reliable information is that the public is not only confused, but confounded, and that condition affords the socialists, communists, radicals and other designing persons a fertile and an almost uncontested field in which to propose or exploit ill-considered and ill-digested ideas for sociological experimentations.

The institute is founded upon certain fundamental principles: (a) that the interest of every man, woman and child in America is inseparably linked with their transportation agencies; (b) that service is of prime or first importance to all, and (c) that the public and the private enterprises which furnish the transportation facilities and service each have equitable and legal rights, and that justice—equal and exact justice—must be accorded to all.

The institute is to be a permanent one, and to accomplish its object the organization has been divided into two distinct parts, a research council and a business or public relations department.

The research council, with headquarters in Washington, D. C., will be composed of not more than 15 men of pre-

eminent ability, standing and learning with reference to transportation and known for their integrity and impartiality.

Hon. Edgar E. Clark, formerly chairman of the Interstate Commerce Commission, has been made chairman, and Hon Sydney Anderson, M. C., formerly chairman of the Joint Commission of Agricultural Inquiry of Congress, has been made vice chairman of that council.

The research council has exclusive jurisdiction over all research and fact-finding work. It will not only ascertain the facts but interpret them in an impartial way, and present such conclusions in a way that can be easily understood by all. It will gather together the result of the research work done by various responsible organizations engaged in such work, with reference to the various kinds of transportation, and will correlate the information thus obtained so as to determine, as nearly as possible, the relative importance and the approximate place and service of the various agencies engaged in furnishing transportation to the public.

Plan of Representation

The business or public relations department will be under the general direction of President Howard. He will be assisted by some very able and experienced officers who are worthy of the confidence and respect of the public. That department will be governed by a board of directors of not more than 52 members, grouped as far as practicable so as to give four representatives each to agriculture, banking, forestry, labor, manufacturing, public utilities, trade, mining, highway transportation, waterway transportation and rail transportation; and not more than eight directors at large. This method of selecting the board of directors insures that all branches of agriculture, industry, finance, transportation and labor will have a voice in the direction of its business affairs and educational policy; and guarantees that no single group will control.

The work of the institute will be educational and not legislative; it will not advocate or oppose special legislation for or against transportation agencies.

The first steps toward the development of a comprehensive, popular education will be inaugurated by engaging a limited number of pre-eminent men, possessing extended information about the transportation problem, to begin the discussion before the public within the next few weeks, of the fundamental principles underlying our transportation system; and will, as soon as plans can be completed, employ a corps of persons of the highest standing and forensic ability, who after receiving the necessary instructions by the research council, will be sent into all parts of the country to gather and convey reliable and necessary information about transportation in all its aspects in open forums, through the press and otherwise.

All available means and facilities will be used to aid the public to know that the transportation problem is its own and that they must not only comprehend it, but must do, and must cause to be done, all things necessary to save vital existing facilities and insure the necessary increase thereof.

The funds necessary to conduct the business are to be contributed by persons, firms and corporations engaged in the various interests that are represented on the board of directors, and by other interested parties. Assurances have been received of substantial support, and there is every reason to expect that the institute will become the great national educational institution which it is intended to be.

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TITLE